UNIVERSITY OF MINNESOTA
Driven to Discover℠

2018 Annual Financial Report

Consolidated Financial Statements
as of and for the Years Ended June 30, 2018 and 2017,
Independent Auditors' Report, and Management's Discussion and Analysis

Deloitte & Touche LLP

Suite 2800
50 South Sixth Street
Minneapolis, MN 55402-1538
USA

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

INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the University of Minnesota (the "University") as of June 30, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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 employer's contributions for other postemployment benefits, the schedule of changes in total other postemployment benefits liability, the schedules of the employer's share of net pension liability, and the schedules of employer's contributions for pensions, as listed in the table of contents, 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 November 2, 2018 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Deloitte & Touche LLP

November 2, 2018

Deloitte & Touche LLP

Suite 2800
50 South Sixth Street
Minneapolis, MN 55402-1538
USA

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

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, 2018, the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic consolidated financial statements, and have issued our report thereon dated November 2, 2018. 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

November 2, 2018

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, 2018, 2017, and 2016. 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 $768.1 million, $763.4 million, and $688.2 million in fiscal years 2018, 2017, and 2016, respectively, for research under various programs funded by governmental and private sources.

The University's enrollment for all five campuses is approximately 67,900 students, with the Twin Cities campus having the largest student enrollment of approximately 51,800 students.

The Duluth campus is a comprehensive, highly-ranked regional research and liberal arts university that offers instruction through the doctoral degree and has a global reputation for research in natural and freshwater resources. The Duluth campus consistently ranks among the top Midwestern regional universities with student enrollment of approximately 11,200 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 1,600 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 2,800 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 500 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 67,900 students;

- graduates approximately 15,800 students, 40 percent with graduate or first professional degrees on the Twin Cities campus;

- provides over 300 student exchange programs, ranking third nationally with learning abroad programs;

- conducts research sponsored by the National Institutes of Health, the National Science Foundation, other federal, state, and governmental agencies, and numerous private companies and foundations;

- reaches out to more than one million Minnesotans through various outreach and public service activities.

During fiscal year 2017, the University engaged Tripp Umbach, a consulting firm, to quantify the economic impacts generated by the University within the State of Minnesota. Tripp Umbach's report summarized the University's impacts within the State as follows:

- The University generates $8.6 billion in combined economic impact annually for the State of Minnesota;

- The University is the fifth largest employer in Minnesota and supports 77,700 jobs throughout the State;

- For every dollar invested by the State into the University, $13.83 is generated in the State's economy;

- University faculty, staff and students generate more than $131.4 million annually in community impact through donations and volunteer time.

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 2018, the University implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* GASB 75 establishes new accounting and financial reporting requirements where University employees are provided with Other Postemployment Benefits (OPEB) and replaces the requirements of GASB Statement No 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires the full OPEB liability be recognized immediately whereas GASB 45 allowed for gradual amortization. The University reported an OPEB liability of $34.9 million, $32.5 million and $32.4 million in fiscal years 2018, 2017, and 2016, respectively.

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).

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 consolidated 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.

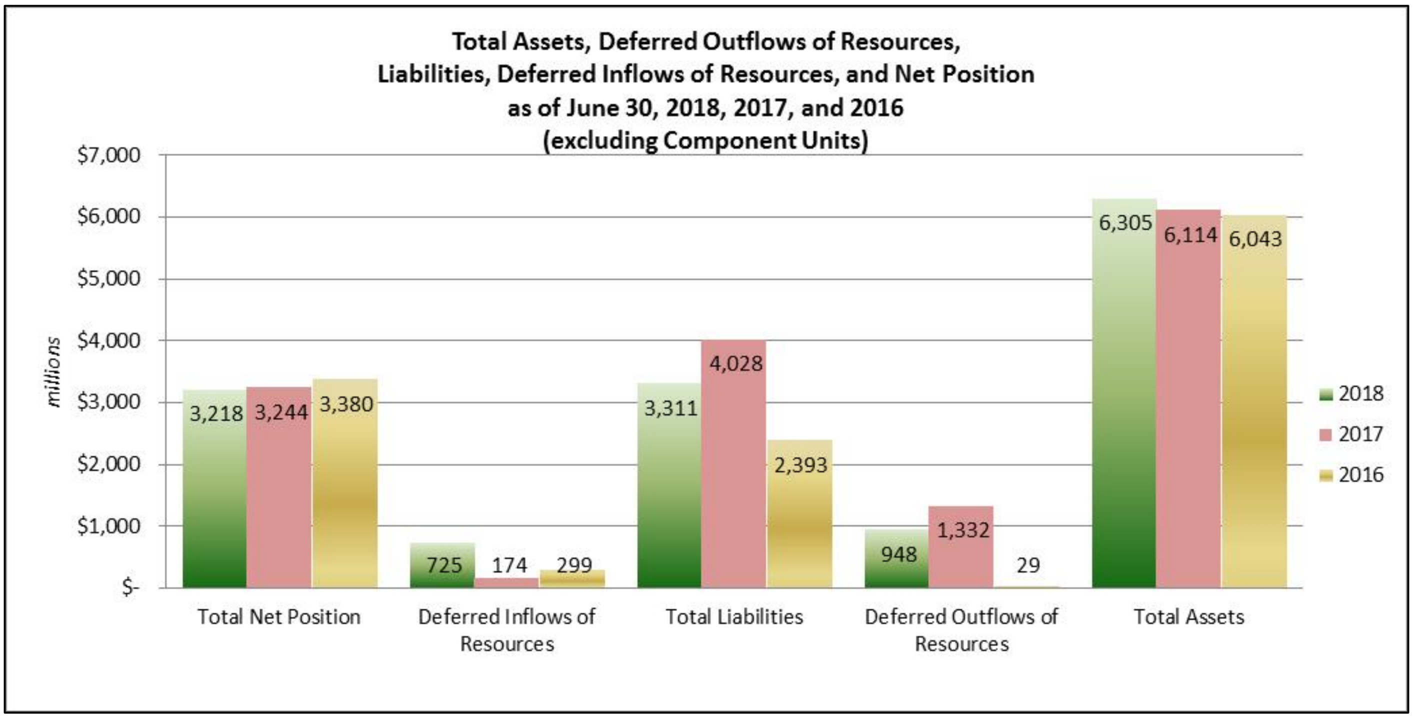
Condensed Statements of Net Position with GASB 68 and 71 (in thousands)			
	2018	**2017**	**2016**
Total assets	6,304,508	6,113,743	6,043,112
Deferred outflows of resources	948,273	1,332,540	29,292
Total liabilities	3,310,582	4,027,694	2,393,151
Deferred inflows of resources	724,632	174,265	298,892
Net position			
Unrestricted	345,558	394,159	563,556
Restricted—expendable	901,976	817,397	880,025
Restricted—nonexpendable	309,407	313,885	304,669
Net investment in capital assets	1,660,626	1,718,883	1,632,111
Total net position	$ 3,217,567	$ 3,244,324	$ 3,380,361

Condensed Statements of Net Position without GASB 68 and 71 (in thousands)			
	2018	**2017**	**2016**
Total assets	6,304,508	6,113,743	6,043,112
Deferred outflows of resources	5,237	3,744	3,989
Total liabilities	2,196,917	2,118,824	2,148,750
Deferred inflows of resources	6,253	1,992	1,915
Net position			
Unrestricted	1,032,588	976,704	963,723
Restricted—expendable	1,103,954	987,199	995,933
Restricted—nonexpendable	309,407	313,885	304,669
Net investment in capital assets	1,660,626	1,718,883	1,632,111
Total net position	$ 4,106,575	$ 3,996,671	$ 3,896,436

Financial Highlights

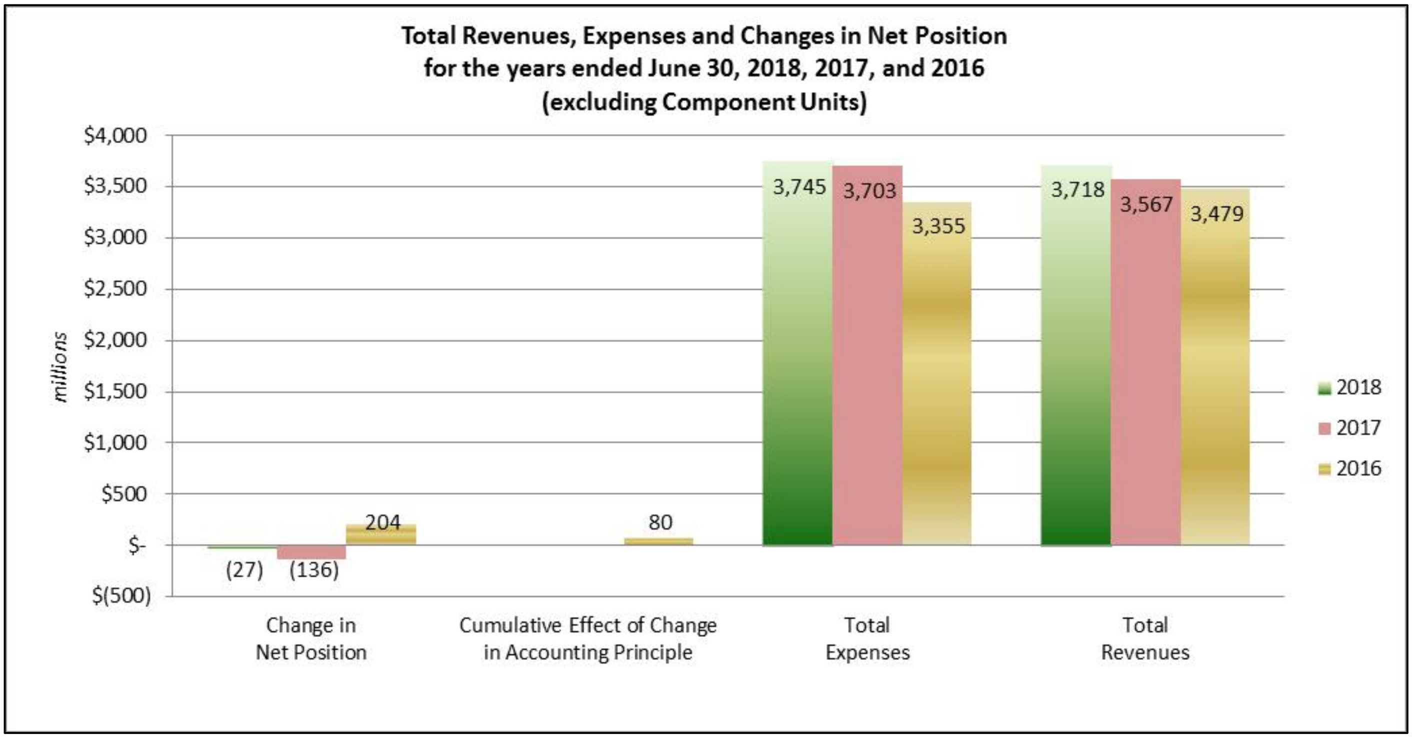
The University's financial position remains strong with assets of $6.3 billion, an increase of $0.2 billion from fiscal year 2017. Liabilities decreased to $3.3 billion compared to $4.0 billion for fiscal year 2017. The University's net position, the difference between total assets, deferred outflows of resources (items previously reported as assets), total liabilities, and deferred inflows of resources (items previously reported as liabilities), decreased slightly compared to fiscal year 2017 to $3.22 billion as of June 30, 2018 compared to $3.24 billion as of June 30, 2017.

The following chart summarizes total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2018, 2017 and 2016, 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 $26.8 million in fiscal year 2018 compared to a decrease of $136.0 million in fiscal year 2017. The significant factors that contributed to the decrease in total net position for fiscal year 2018 include the recording of the net pension liability and increases in long-term debt partially offset by increases in investment related activity and capital assets.

The following chart summarizes total revenues, expenses and the changes in net position for the years ended June 30, 2018, 2017 and 2016, respectively:



The University experienced an increase in total revenue of $151.2 million or 4.2 percent due to increases in almost all operating revenue categories, investment income and increases in both State and Federal appropriations. Total expenses remained relatively unchanged compared to fiscal year 2017, increasing $41.9 million or 1.1 percent.

With the implementation of GASB 75, the University is required to present the changes retrospectively. As a result, $80.1 million was recorded as a cumulative effect of a change in accounting principle in fiscal year 2016. 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 operating expense fluctuations as a result of GASB 68 and 71, do 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, 2018, 2017 and 2016 is summarized in the table below:

Condensed Statements of Net Position
(in thousands)

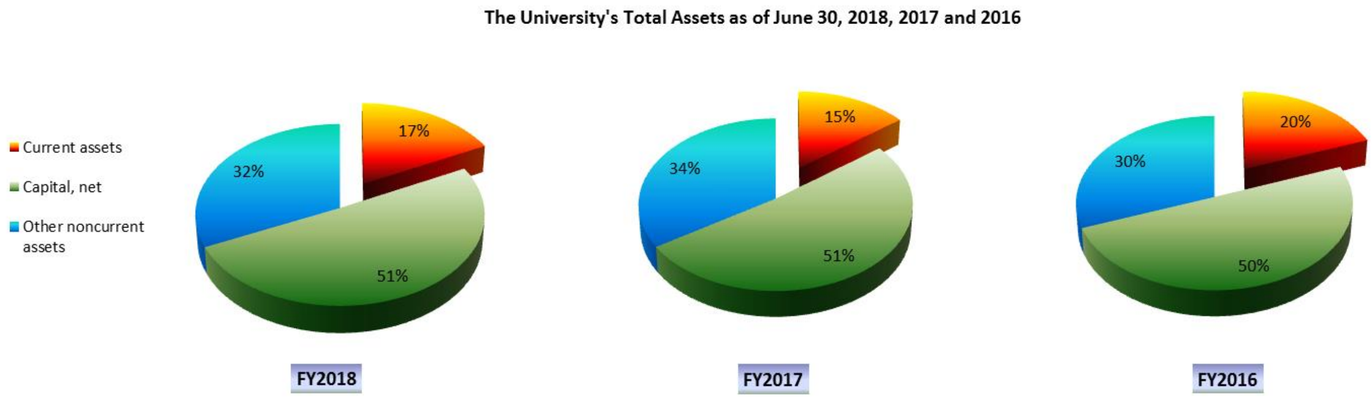
	2018	2017	2016
Assets			
Current assets	$ 1,103,480	$ 887,438	$ 1,159,528
Noncurrent assets, excluding capital assets	2,015,711	2,085,246	1,855,782
Capital assets, net	3,185,317	3,141,059	3,027,802
Total assets	6,304,508	6,113,743	6,043,112
Deferred outflows of resources	948,273	1,332,540	29,292
Liabilities			
Current liabilities, excluding long-term debt	518,349	511,257	504,113
Noncurrent liabilities, excluding long-term debt	1,250,444	2,051,461	388,406
Long-term debt	1,541,789	1,464,976	1,500,632
Total liabilities	3,310,582	4,027,694	2,393,151
Deferred inflows of resources	724,632	174,265	298,892
Net position			
Unrestricted	345,558	394,159	563,556
Restricted—expendable	901,976	817,397	880,025
Restricted—nonexpendable	309,407	313,885	304,669
Net investment in capital assets	1,660,626	1,718,883	1,632,111
Total net position	$ 3,217,567	$ 3,244,324	$ 3,380,361

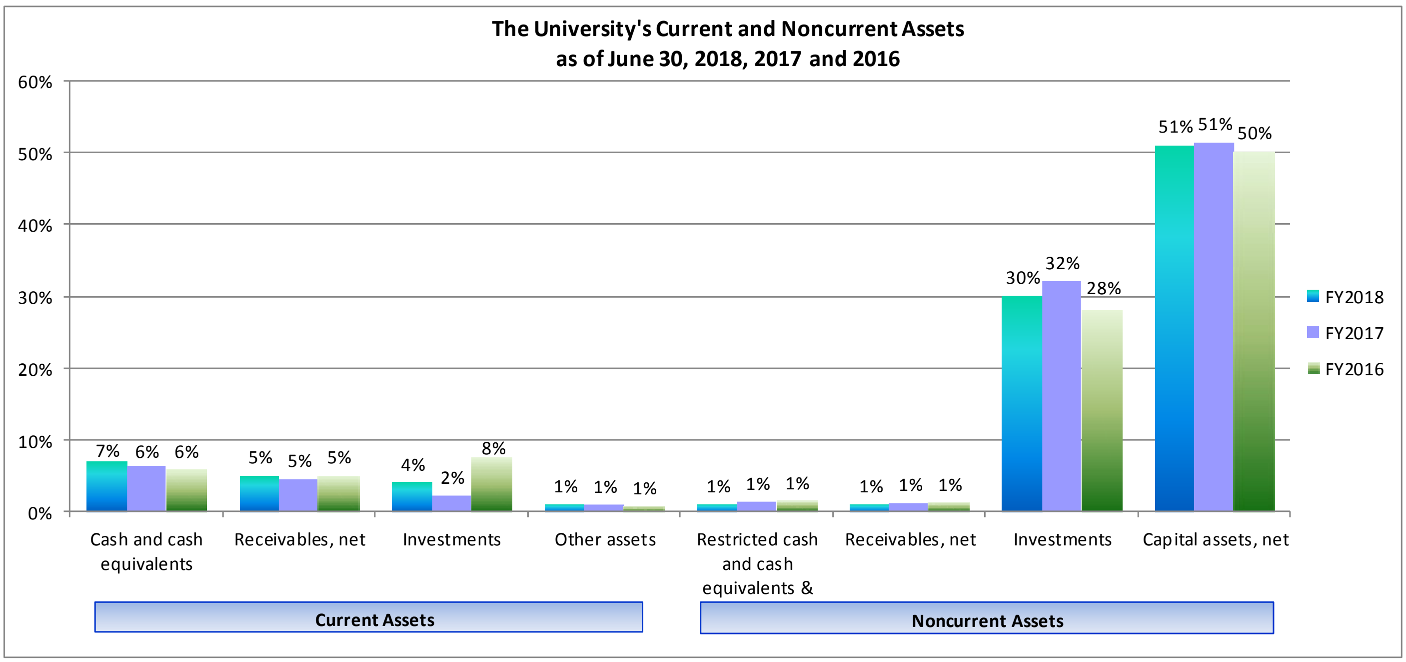
Assets

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, 2018, 2017 and 2016 *(in thousands)*							
				Increase (Decrease)			
				From 2017 to 2018		From 2016 to 2017	
	2018	2017	2016	Amount	Percent	Amount	Percent
Current assets							
Cash and cash equivalents	$ 463,460	$ 387,772	$ 350,385	$ 75,688	19.5%	$ 37,387	10.7%
Receivables, net	319,820	280,307	304,218	39,513	14.1%	(23,911)	(7.9%)
Investments	263,676	163,201	459,515	100,475	61.6%	(296,314)	(64.5%)
Other assets	56,524	56,158	45,410	366	0.7%	10,748	23.7%
Total current assets	1,103,480	887,438	1,159,528	216,042	24.3%	(272,090)	(23.5%)
Noncurrent assets							
Capital assets, net	3,185,317	3,141,059	3,027,802	44,258	1.4%	113,257	3.7%
Other noncurrent assets							
Restricted cash and cash equivalents & other assets	43,193	82,135	111,665	(38,942)	(47.4%)	(29,530)	(26.4%)
Receivables, net	74,621	74,522	74,186	99	0.1%	336	0.5%
Investments	1,897,897	1,928,589	1,669,931	(30,692)	(1.6%)	258,658	15.5%
Total other noncurrent assets	2,015,711	2,085,246	1,855,782	(69,535)	(3.3%)	229,464	12.4%
Total assets	$ 6,304,508	$ 6,113,743	$ 6,043,112	$ 190,765	3.1%	$ 70,631	1.2%

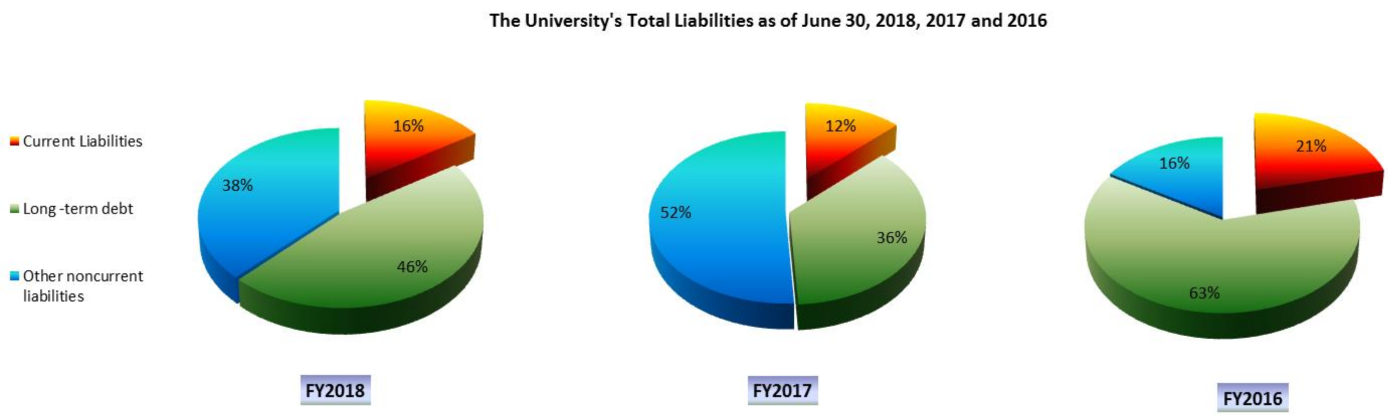
As of June 30, 2018, total assets increased $190.8 million primarily due to increases in cash and cash equivalents, investments, and capital assets, net. Investments increased $69.8 million primarily due to favorable market conditions, partially offset by a decrease to the Temporary Investment Pool (TIP) due to funding capital expenditures. 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 $36.7 million due to normal University operations. Noncurrent cash and cash equivalents consist of unspent bond proceeds of $25.4 million and $48.9 million in fiscal year 2018 and 2017, respectively. Capital assets, net of accumulated depreciation, increased $44.3 million due to increased spending on construction projects, specifically the Chemical Sciences & Advanced Materials building on the Duluth campus, the Pioneer Hall renovation and the Health Sciences Education Center. Refer to Note 4 for additional information related to capital assets.

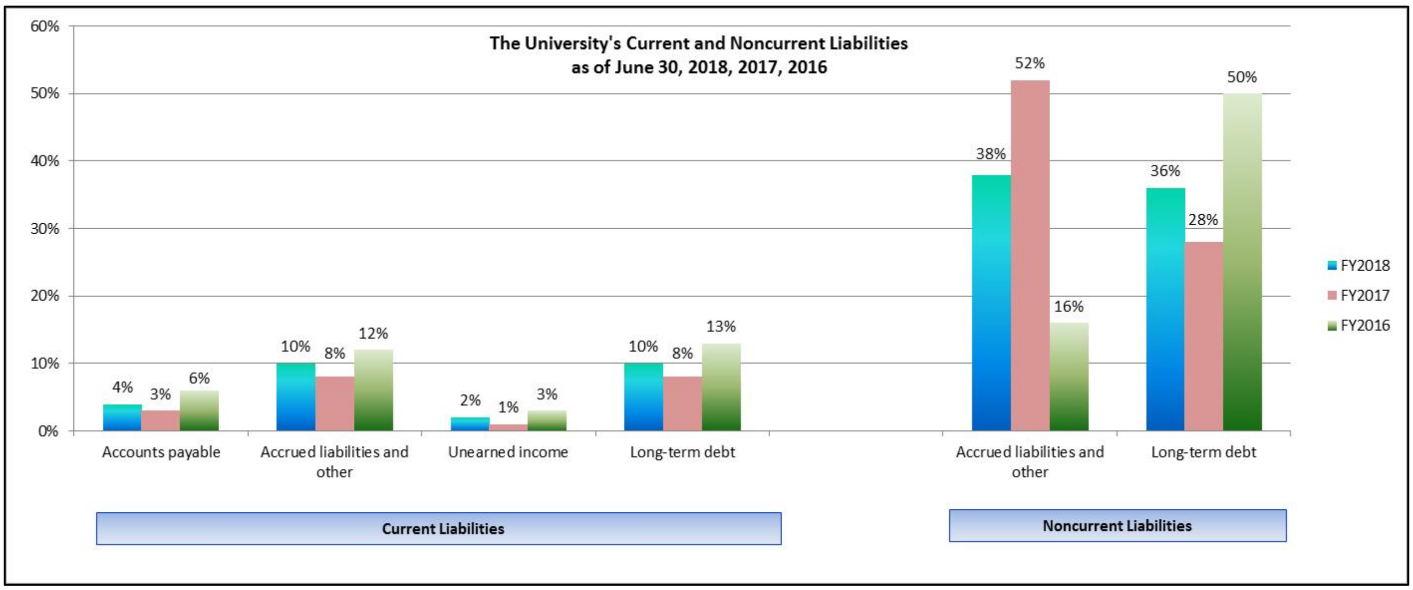
Liabilities

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, 2018, 2017 and 2016 (in thousands)							
				Increase (Decrease)			
				From 2017 to 2018		From 2016 to 2017	
	2018	2017	2016	Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	$ 137,764	$ 139,589	$ 145,992	$ (1,825)	(1.3%)	$ (6,403)	(4.4%)
Accrued liabilities and other	315,696	309,116	295,441	6,580	2.1%	13,675	4.6%
Unearned income	64,889	62,552	62,680	2,337	3.7%	(128)	(0.2%)
Long-term debt	346,794	333,509	300,531	13,285	4.0%	32,978	11.0%
Total current liabilities	865,143	844,766	804,644	20,377	2.4%	40,122	5.0%
Noncurrent liabilities							
Accrued liabilities and other	1,250,400	2,051,375	388,345	(800,975)	(39.0%)	1,663,030	428.2%
Unearned income *	44	86	61	(42)	(48.8%)	25	41.0%
Long-term debt	1,194,995	1,131,467	1,200,101	63,528	5.6%	(68,634)	(5.7%)
Total noncurrent liabilities	2,445,439	3,182,928	1,588,507	(737,489)	(23.2%)	1,594,421	100.4%
Total Liabilities	$ 3,310,582	$ 4,027,694	$ 2,393,151	$ (717,112)	(17.8%)	$ 1,634,543	68.3%

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

As of June 30, 2018, total liabilities decreased $717.1 million primarily due to a decrease in accrued liabilities as a result of recording the net pension liability partially offset by increases in long-term debt. The University's long-term debt represents 47 percent of total liabilities or $1,541.8 million as of June 30, 2018 compared to 35 percent or $1,465.0 million as of June 30, 2017. Accrued liabilities decreased $794.4 million, primarily related to the recording of the net pension liability.

With the implementation of GASB 75, the University recorded the University's full liability related to Other Postemployment Benefits (OPEB). The University reported an OPEB liability of $34.9 million, $32.5 million and $32.4 million in fiscal years 2018, 2017 and 2016, respectively. As of June 30, 2018, the cumulative OPEB liability of $34.9 million was recorded as a current liability of $5.3 million and a noncurrent liability of $29.6 million.

Long-term debt increased $76.8 million or 5.2 percent. The University issued General Obligation (GO) Bonds, Series 2017A, GO Refunding Bonds, Series 2017B, GO Taxable Refunding Bonds, Series 2017C, and Commercial Paper Notes, Series G, in the amount of $117.1 million, $293.0 million, $13.2 million and $32.0 million, respectively in fiscal year 2018. 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, 2018, the deferred outflows of resources decreased $384.3 million and deferred inflows of resources increased $550.4 million, primarily due to the balances and related activity of the University's Net Pension Liability related to the State retirement plans.

Net Position

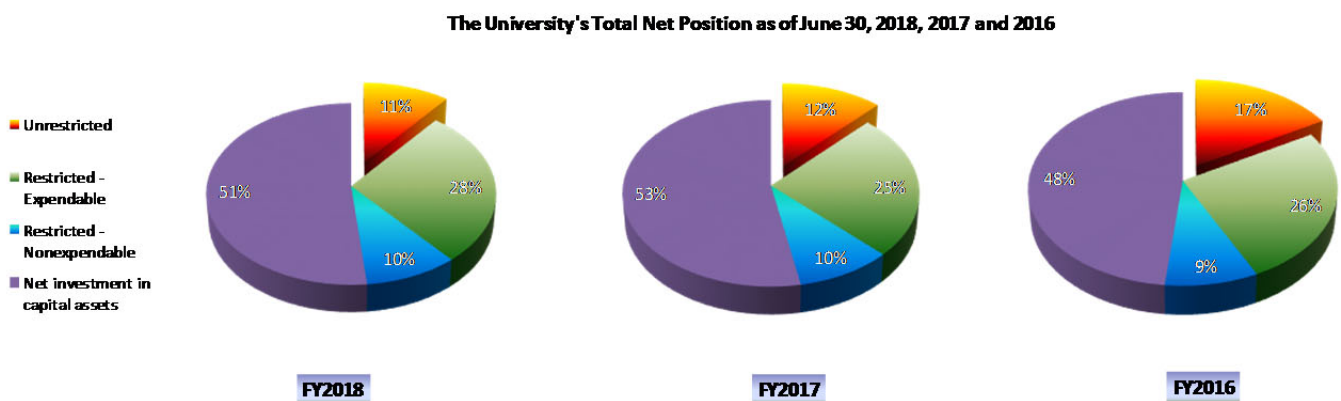
Net position represents the residual value of the University's assets and deferred outflows of resources, after deducting liabilities and deferred inflows of resources and consists of the following three classifications:

- 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:

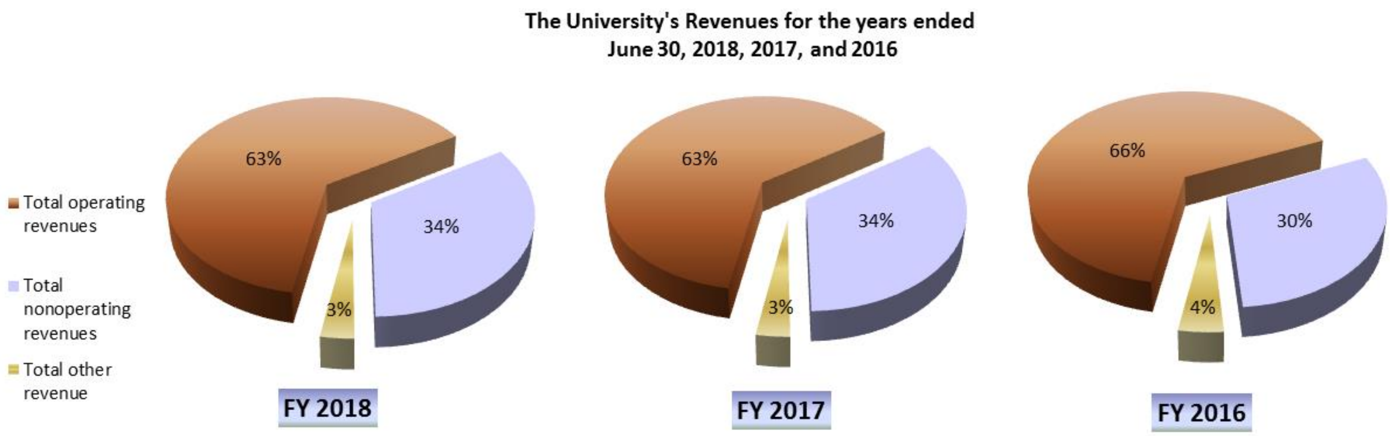


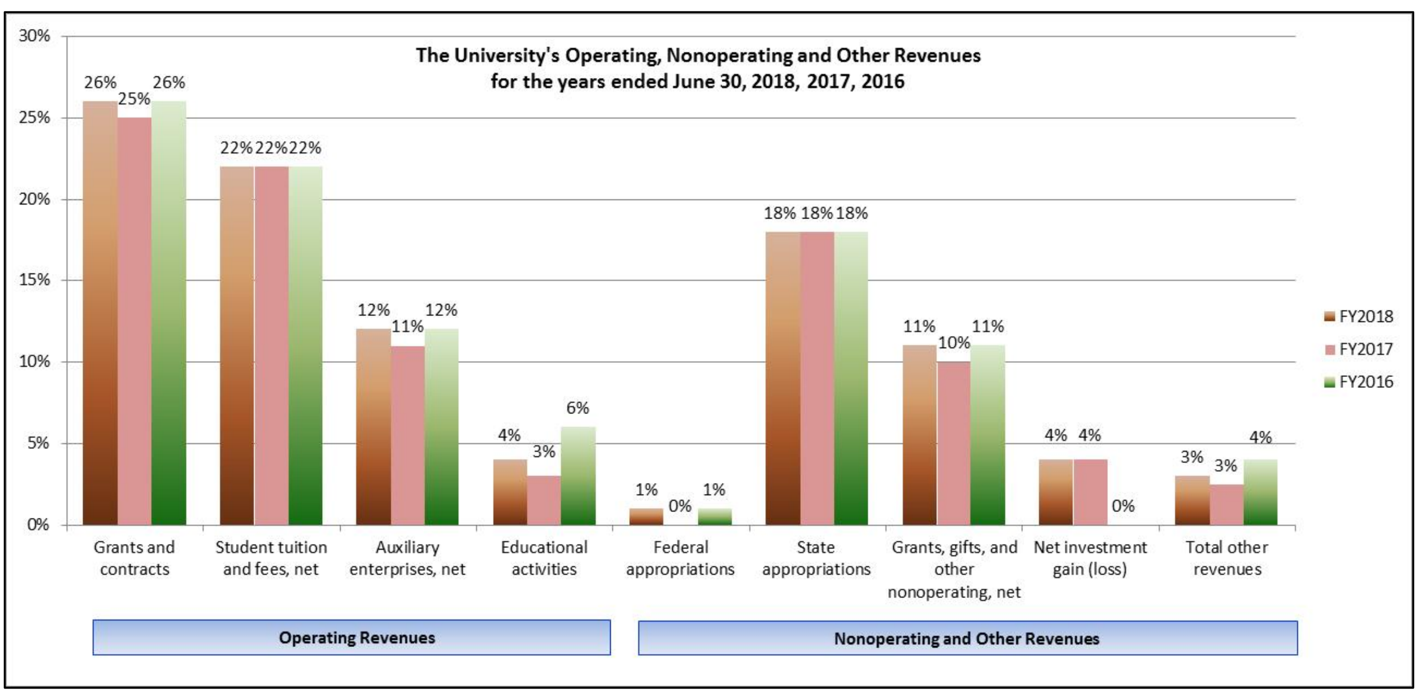
The University's total net position as of June 30, 2018, 2017 and 2016 *(in thousands)*							
				Increase (Decrease)			
				From 2017 to 2018		From 2016 to 2017	
	2018	2017	2016	Amount	Percent	Amount	Percent
Unrestricted	$ 345,558	$ 394,159	$ 563,556	$ (48,601)	(12.3%)	$ (169,397)	(30.1%)
Restricted:							
Expendable	901,976	817,397	880,025	84,579	10.3%	(62,628)	(7.1%)
Nonexpendable	309,407	313,885	304,669	(4,478)	(1.4%)	9,216	3.0%
Net investment in capital assets	1,660,626	1,718,883	1,632,111	(58,257)	(3.4%)	86,772	5.3%
Total net position	$ 3,217,567	$ 3,244,324	$ 3,380,361	$ (26,757)	(0.8%)	$ (136,037)	(4.0%)

The University's unrestricted net position decreased $48.6 million in fiscal year 2018 primarily due to an increase in deferred inflows of resources, partially offset by a decrease in accrued liabilities, specifically related to the net pension liability. The University's restricted expendable net position increased $84.6 million in fiscal year 2018 due primarily to changes in market values related to endowments and the recording of the University's net pension liability. The University's net investment in capital assets decreased $58.3 million primarily due to increases in long-term debt partially offset by increases in capital assets.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position present the University's operating, nonoperating, capital and endowment related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. 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 63, 63 and 66 percent of total revenues for fiscal years 2018, 2017 and 2016, respectively.





The University's Operating, Nonoperating and Other Revenue for the years ended June 30, 2018, 2017 and 2016
(in thousands)

				Increase (Decrease)			
				From 2017 to 2018		From 2016 to 2017	
	2018	2017	2016	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 939,085	$ 901,319	$ 897,685	$ 37,766	4.2%	$ 3,634	0.4%
Student tuition and fees, net	797,329	774,827	751,418	22,502	2.9%	23,409	3.1%
Auxiliary enterprises, net	438,118	403,088	414,217	35,030	8.7%	(11,129)	(2.7%)
Educational activities	153,335	148,981	160,984	4,354	2.9%	(12,003)	(7.5%)
Other operating revenue *	108	114	83	(6)	(5.3%)	31	37.3%
Total operating revenues	2,327,975	2,228,329	2,224,387	99,646	4.5%	3,942	0.2%
Nonoperating revenues							
Federal appropriations	21,690	17,481	20,367	4,209	24.1%	(2,886)	(14.2%)
State appropriations	684,261	650,749	663,705	33,512	5.1%	(12,956)	(2.0%)
Grants, gifts, and other nonoperating, net	406,936	401,424	423,563	5,512	1.4%	(22,139)	(5.2%)
Net investment gain	166,226	147,380	19,175	18,846	12.8%	128,205	668.6%
Total nonoperating revenues	1,279,113	1,217,034	1,126,810	62,079	5.1%	90,224	8.0%
Total other revenues	110,744	121,284	127,697	(10,540)	(8.7%)	(6,413)	(5.0%)
Total revenues (noncapital)	$ 3,717,832	$ 3,566,647	$ 3,478,894	$ 151,185	4.2%	$ 87,753	2.5%

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

Total revenues increased in fiscal year 2018 by $151.2 million primarily due to increases in all categories of operating revenue, investment income, and both State and Federal appropriations. Operating revenues increased $99.6 million or 4.5 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 2.9 percent as a result of the fiscal year 2018 President's initiatives related to tuition increases. Increases were partially offset by the President's initiatives which include offsetting the resident undergraduate tuition increase for students with the greatest financial need by increased award levels for students eligible for federal Pell and Minnesota state grants, and holding graduate and professional tuition increases flat for certain disciplines to address concerns related to student debt.

Revenues from sales and services of educational activities increased $4.4 million due to timing of normal business activity.

State appropriations increased $33.5 million compared to a decrease of $13.0 million in fiscal year 2017, increasing to $684.3 million from $650.7 million in fiscal year 2017. 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 2018 included appropriations for the MNDrive Cancer Clinical Trials, Natural Resources Research Institute and Clean Water initiatives.

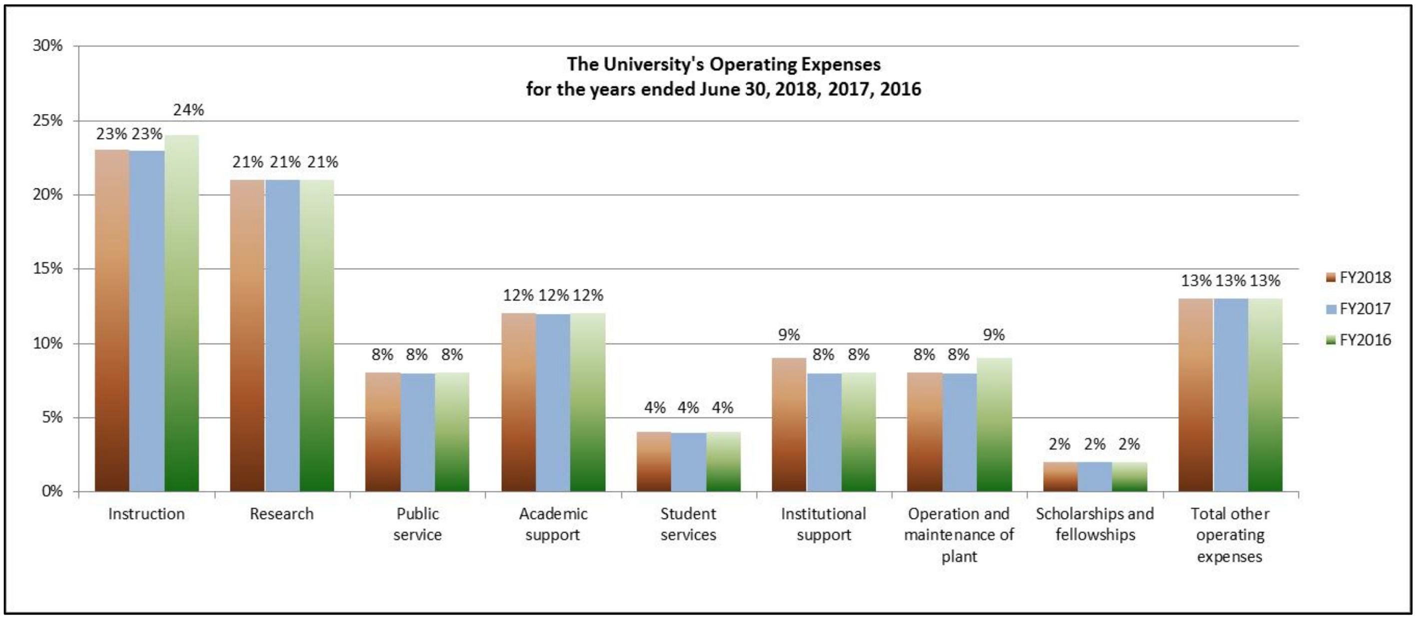
Tuition, educational and auxiliary activities and State appropriations, in addition to other sources of unrestricted revenue, funded a number of University priorities including competitive compensation plans for faculty and staff; various academic initiatives such as MNDrive; enhancement of services 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:

Robotics, Global Food, Environment, and Brain Conditions. In 2017, the State appropriated another $4 million per year for a fifth research area: Cancer Clinical Trials.

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of $195.6 million, $191.0 million, and $200.1 million, and grants and gifts for capital purposes of $35.7 million, $42.2 million, and $46.1 million in fiscal years 2018, 2017, and 2016, respectively.

For the year ended June 30, 2018, other revenues, which consist of capital appropriations, and capital endowments gifts and grants decreased $10.5 million and $6.4 million or 8.7 percent and 5.0 percent in fiscal years 2018 and 2017, respectively. Capital appropriation revenue is received as project expenses are incurred. As projects near completion, the revenue received decreases. During fiscal year 2018, several projects such as the Vet Isolation Facility and the Tate Science and Teaching Renovation were completed.

Total Operating Expenses



The University's Operating Expenses by Functional Category for the years ended June 30, 2018, 2017 and 2016
(in thousands)

				Increase (Decrease)			
				From 2017 to 2018		From 2016 to 2017	
	2018	2017	2016	Amount	Percent	Amount	Percent
Education and general							
Instruction	$827,200	$827,780	$785,085	($580)	(0.1%)	$42,695	5.4%
Research	768,137	763,410	688,241	4,727	0.6%	75,169	10.9%
Public service	285,251	304,268	256,375	(19,017)	(6.3%)	47,893	18.7%
Academic support	465,319	461,543	384,477	3,776	0.8%	77,066	20.0%
Student services	142,865	144,826	116,750	(1,961)	(1.4%)	28,076	24.0%
Institutional support	314,769	297,379	259,119	17,390	5.8%	38,260	14.8%
Operation and maintenance of plant	310,674	288,588	290,690	22,086	7.7%	(2,102)	(0.7%)
Scholarships and fellowships	64,589	62,060	60,414	2,529	4.1%	1,646	2.7%
Depreciation	221,797	208,645	212,969	13,152	6.3%	(4,324)	(2.0%)
Total education and general	3,400,601	3,358,499	3,054,120	42,102	1.3%	304,379	10.0%
Other operating expenses							
Auxiliary enterprises	297,711	292,784	256,432	4,927	1.7%	36,352	14.2%
Other operating expenses, net	120	294	157	(174)	(59.2%)	137	87.3%
Total other operating expenses	297,831	293,078	256,589	4,753	1.6%	36,489	14.2%
Total operating expenses	$3,698,432	$3,651,577	$3,310,709	46,855	1.3%	340,868	10.3%

Total operating expenses remained relatively flat, increasing $46.9 million or 1.3 percent in fiscal year 2018 compared to an increase of $340.8 million or 10.3 percent in fiscal year 2017. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at $2.4 billion or 65.5 percent, $2.5 billion or 67.5 percent and $2.1 billion or 62.5 percent of operating expenses in fiscal years 2018, 2017 and 2016, respectively. Compensation related expenditures decreased $43.5 million or 1.8 percent compared to an increase of $387.4 million or 18.6 percent in fiscal years 2018 and 2017, respectively. Decreases in compensation related expenditures in fiscal year 2018 are primarily due to the University's recording of GASB 68 and 71 pension expenses which resulted in decreases in fringe related expenses of $25.1 million associated with the decrease in the net pension liability.

Increases in both Institutional Support and Operation and Maintenance of plant are due to various projects that were ramping up during fiscal year 2018. Institutional Support increased $17.4 million during fiscal year 2018, primarily due to the Next Generation Network project, which started in fiscal year 2017. Operation and maintenance of plant expenses increased $22.1 million during fiscal year 2018, primarily due to increased spending on projects, specifically the Mechanical Engineering Lab Programming, Phillips-Wangensteen Building CTSI Research Clinic, Shepherd Labs Robotics Laboratory and the UMD Sports and Health Center HVAC system.

Consolidated Statements of Cash Flows

The University's cash flows for the years ended June 30, 2018, 2017 and 2016
(in thousands)

				Increase (Decrease)			
				From 2017 to 2018		From 2016 to 2017	
	2018	2017	2016	Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	$ (1,019,820)	$ (990,907)	$ (975,099)	$ (28,913)	(2.9%)	$ (15,808)	(1.6%)
Noncapital financing activities	1,102,699	1,086,731	1,110,941	15,968	1.5%	(24,210)	(2.2%)
Capital and related financing activities	(142,775)	(264,733)	(149,195)	121,958	46.1%	(115,538)	(77.4%)
Investing activities	112,059	147,807	139,433	(35,748)	24.2%	8,374	(6.0%)
Net increase (decrease) in cash	52,163	(21,102)	126,080	73,265	(347.2%)	(147,182)	(116.7%)
Cash, beginning of year	436,705	457,807	331,727	(21,102)	(4.6%)	126,080	38.0%
Cash, end of year	$ 488,868	$ 436,705	$ 457,807	$ 52,163	11.9%	$ (21,102)	(4.6%)

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 increased $52.2 million compared to fiscal year 2017 due to capital and related financing activities, partially offset by decreased cash flows from investing activities.

Operating Activities

The cash used by operating activities decreased $28.9 million compared to fiscal year 2017 primarily due to the timing of normal business activities.

Capital and Related Financing Activities

The cash used by capital and related financing activities decreased $122.0 million primarily due to an increase in cash flow related from new debt issuances. During fiscal year 2018, the University issued $423.3 million and $32.0 million in new bond issuances and commercial paper, respectively, compared to $50.1 million in new commercial paper in fiscal year 2017. The most significant sources of cash provided by noncapital financing activities included State appropriations totaling $684.3 million and $652.2 million, grants totaling $200.9 million and $201.1 million and gifts totaling $186.6 million and $204.9 million in 2018 and 2017, 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

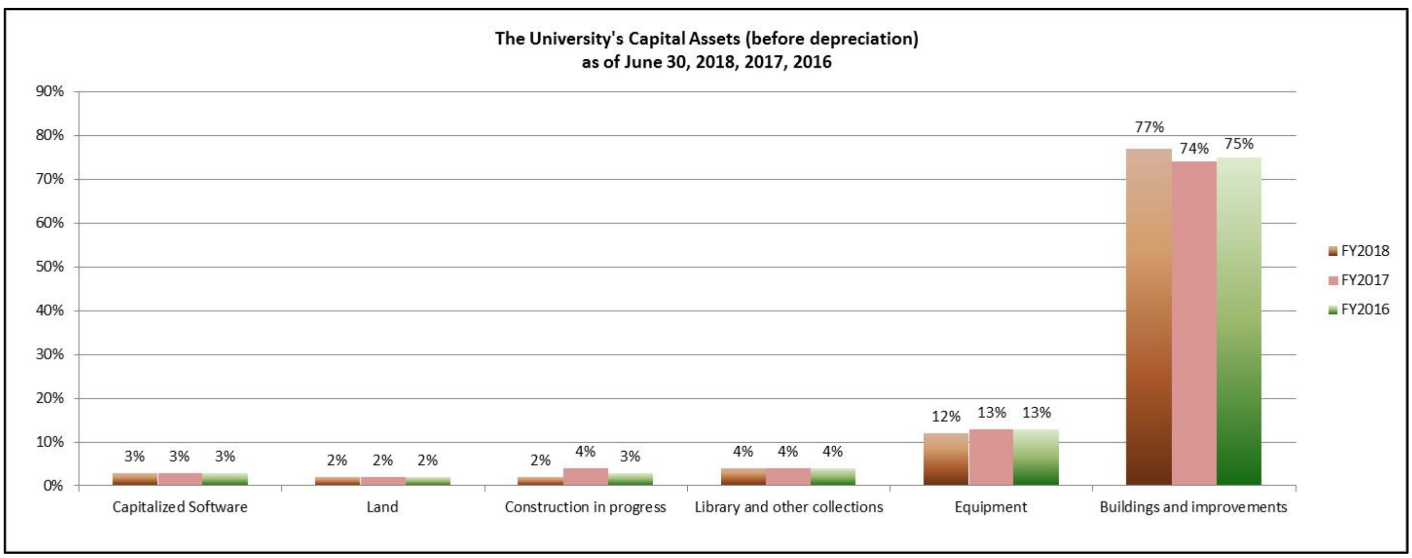
The University's endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are benchmarked over three-to five-year periods.

Long-term endowment and other investments included increases from net unrealized gains on the endowment and other investments of $96.7 million and $81.8 million in fiscal years 2018 and 2017, respectively, compared to a decrease of $77.0 million in fiscal year 2016. Annual distributions of the endowment to departments, partially offset by reinvested endowment earnings, decreased investments by $59.7 million, $56.4 million and $53.5 million in fiscal years 2018, 2017 and 2016, 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 2018, 2017 and 2016.

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, 2018, 2017 and 2016 *(in thousands)*							
				Increase (Decrease)			
				From 2017 to 2018		From 2016 to 2017	
	2018	2017	2016	Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	$ 5,043,935	$ 4,693,313	$ 4,563,316	$ 350,622	7.5%	$ 129,997	2.8%
Equipment	789,077	794,146	766,380	(5,069)	(0.6%)	27,766	3.6%
Library and other collections	254,804	248,229	240,627	6,575	2.6%	7,602	3.2%
Construction in progress	105,616	258,089	165,099	(152,473)	(59.1%)	92,990	56.3%
Land	162,735	154,416	150,160	8,319	5.4%	4,256	2.8%
Software and other intangibles	186,543	178,910	170,357	7,633	4.3%	8,553	5.0%
Total capital assets (gross)	$ 6,542,710	$ 6,327,103	$ 6,055,939	$ 215,607	3.4%	$ 271,164	4.5%

Capital additions totaled $272.5 million, $331.1 million, and $288.7 million in fiscal year 2018, 2017 and 2016, respectively. Fiscal year 2018 spending included the completion of the Intercollegiate Athletics Village, the Bell Museum Planetarium and the Tate Science and Teaching Renovation in addition to spending on existing projects such as the Chemical Sciences and Advanced Materials Building, the Pioneer Hall Renovation and the Health Sciences Education Center. Project spending continuing in fiscal year 2019 is projected to be $17.9 million, $79.6 million, and $92.0 million for the Chemical Sciences and Advanced Materials Building, the Pioneer Hall Renovation and the Health Sciences Education Center, respectively. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Fiscal year 2018 debt activity included the issuance of General Obligation Bonds, Series 2017A, General Obligation Refunding Bonds, Series 2017B, General Obligation Taxable Refunding Bonds, Series 2017C and Commercial Paper Notes, Series G.

During fiscal year 2018, the Board of Regents authorized a revolving commercial paper facility through which the University may issue tax-exempt and taxable commercial paper notes for short or long-term financing of capital projects. The aggregate principal amount outstanding under the facility shall not exceed $400 million.

Capital leases of $2.7 million, $3.1 million and $2.3 million were issued in fiscal year 2018, 2017 and 2016, 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 – both for operations and facilities. The University's 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 a 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's financial position or results of operations in the future.

State support for operations and maintenance – The University is currently planning to request a 6.7 percent increase in base funding from the State of Minnesota for the FY 2020-2021 biennium. This increase, if fully funded, will allow the University to address its most pressing operational needs: competitive compensation, classroom and equipment maintenance, compliance with federal and state regulations, targeted investments in renewing research and technology infrastructure, the maintenance of core facilities used to support research, and a limited number of program enhancements. If not fully funded, the University will need to cover operating cost increases through other revenue increases and through operating cost containment and reallocation.

State support for facilities and capital projects – The University's strategic priorities for capital investments are focused on 5 key areas:

- Address the backlog of facilities that are in poor or critical condition as determined by the Facilities Condition Assessment criteria;
- Make facilities investments to advance the Health Sciences;
- Modernize the research laboratories located at the St. Paul campus;
- Add physical capacity to expand science, technology, engineering, and math (STEM) programs; and
- Reposition the University's libraries for the 21st Century

As a result of the 2018 Legislative session, the state provided $79.4 million in new non-recurring funding to the University for capital projects across the system's 5 campuses. The University's 2019 state capital request tentatively includes $200 million in funds for Higher Education Asset Preservation and Renewal (HEAPR) projects across the system, $4.3 million for renovation of the A.B. Anderson Hall on the Duluth campus, and $28 million for renewal and replacement of facilities for the Institute for Child Development on the Twin Cities campus.

The 2019 state capital request represents the second year in which the University has asked for the majority of funding in the form of HEAPR dollars, which are used for projects that preserve, maintain and renew existing University facilities. The University will increasingly focus its state capital requests on HEAPR as a strategy to avoid a worsening backlog of unfunded maintenance, and to preserve 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 embarked on a plan to increase the tuition for non-resident / non-reciprocity (NRNR) undergraduates. Tuition for NRNR students was increased by 15 percent for fiscal year 2018-2019. 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 is tentatively planning for a 10 percent tuition increase for NRNR students as part of the fiscal year 2020 annual operating budget. Our 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 final 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 six-year program cost reallocation program, the University will need to continue its cost-containment efforts while finding new ways to reduce operating costs without impacting teaching, research, and outreach mission.

The University's partnership with Fairview Health Services – The University has a long-term academic affiliation agreement with Fairview Health Services (Fairview), the health care organization that purchased the University's on-campus hospital in 1996. During fiscal year 2018, the University engaged in negotiations with Fairview and University of Minnesota Physicians to create a new agreement that would provide better support to the University's academic and clinical medical enterprise. At a special meeting of the Board of Regents in September 2018, the Board approved the definitive agreements including:

- A new master agreement;
- A new branding agreement;
- New organizational and operational structures; and
- Significant increases in the levels of financial support provided to the Medical School.

The overall result of these new agreements is to "reset" the relationship between the University, Fairview, and the University's faculty practice plan to create a new joint clinical enterprise that will help the University and Fairview become a nationally renowned, high-performing academic health system. This new relationship is vital to supporting and strengthening the research, outreach, and medical education missions of the University of Minnesota Medical School. Refer to Note 12 for additional information.

University of Minnesota
Consolidated Statements of Net Position (Excluding Component Units)
June 30, 2018 and 2017 (in thousands)

			2018	2017
Assets				
Current assets				
	Cash and cash equivalents		$ 463,460	$ 387,772
	Short-term investments		263,676	163,201
	Receivables, net		309,741	270,118
	Inventories		19,389	20,075
	Student loans receivable, net		10,079	10,189
	Prepaid expenses		36,575	35,878
	Other assets		560	205
	Total current assets		1,103,480	887,438
Noncurrent assets				
	Restricted cash and cash equivalents		25,408	48,933
	Investments		1,897,897	1,928,589
	Receivables, net		11,039	11,869
	Student loan receivables, net		63,582	62,653
	Prepaid expenses		15,005	31,922
	Other assets		2,780	1,280
	Capital assets, net		3,185,317	3,141,059
	Total noncurrent assets		5,201,028	5,226,305
Total assets			6,304,508	6,113,743
Deferred Outflows of Resources			948,273	1,332,540
Liabilities				
Current liabilities				
	Accounts payable		137,764	139,589
	Accrued liabilities and other		315,696	309,116
	Unearned income		64,889	62,552
	Long-term debt		346,794	333,509
	Total current liabilities		865,143	844,766
Noncurrent liabilities				
	Accrued liabilities and other		1,250,400	2,051,375
	Unearned income		44	86
	Long-term debt		1,194,995	1,131,467
	Total noncurrent liabilities		2,445,439	3,182,928
Total liabilities			3,310,582	4,027,694
Deferred Inflows of Resources			724,632	174,265
Net Position				
	Unrestricted		345,558	394,159
	Restricted	Expendable	901,976	817,397
		Nonexpendable	309,407	313,885
	Net investment in capital assets		1,660,626	1,718,883
Total net position			$ 3,217,567	$ 3,244,324

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, 2018 and 2017 (in thousands)

	University of Minnesota Foundation		University of Minnesota Physicians	
	2018	2017	2018	2017
Assets				
Cash and cash equivalents	$ 35,071	$ 23,037	$ 82,464	$ 70,095
Investments, substantially at fair market value	2,654,606	2,483,444	21,750	16,335
Pledges receivable, net	204,696	199,838		
Accounts and other receivables	42,459	40,870	111,075	103,466
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	86,446	87,844		
Gift annuities	30,876	32,163		
Property and equipment, net	85,284	62,185	5,760	3,834
Prepaids and other assets			2,831	15,517
Total assets	3,139,438	2,929,381	223,880	209,247
Liabilities				
Accounts payable and accrued liabilities	24,294	25,773	122,938	94,405
Gift annuities payable	16,313	17,419		
Unitrusts, pooled income, and annuity trusts payable	11,016	11,173		
Investments held for custody of others	261,608	256,809		
Long-term debt	47,828	48,662	2,531	
Total liabilities	361,059	359,836	125,469	94,405
Net Assets				
Unrestricted	123,385	115,784	98,411	114,842
Temporarily restricted	1,413,280	1,281,096		
Permanently restricted	1,241,714	1,172,665		
Total net assets	2,778,379	2,569,545	98,411	114,842
Total liabilities and net assets	$ 3,139,438	$ 2,929,381	$ 223,880	$ 209,247

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, 2018 and 2017 (in thousands)

			2018	2017
Revenues				
Operating revenues	Student tuition and fees, net of scholarship allowances of $294,095 in 2018; $280,203 in 2017		$ 797,329	$ 774,827
	Federal grants and contracts		453,498	439,410
	State and other government grants		85,741	73,720
	Nongovernmental grants and contracts		399,846	388,189
	Student loan interest income		1,998	1,828
	Sales and services of educational activities, net of scholarship allowances of $45 in 2018; $47 in 2017		151,337	147,153
	Auxiliary enterprises, net of scholarship allowances of $12,106 in 2018; $10,475 in 2017		438,118	403,088
	Other operating revenues		108	114
Total operating revenues			2,327,975	2,228,329
Expenses				
Operating expenses	Education and general	Instruction	827,200	827,780
		Research	768,137	763,410
		Public service	285,251	304,268
		Academic support	465,319	461,542
		Student services	142,865	144,826
		Institutional support	314,769	297,379
		Operation & maintenance of plant	310,674	288,588
		Scholarships & fellowships	64,589	62,060
		Depreciation	221,797	208,645
	Auxiliary enterprises		297,711	292,784
	Other operating expenses, net		120	294
Total operating expenses			3,698,432	3,651,576
Operating Loss			(1,370,457)	(1,423,247)
Nonoperating Revenues (Expenses)				
Federal appropriations			21,690	17,481
State appropriations			684,261	650,749
Grants			204,018	203,044
Gifts			195,612	191,042
Investment income, net			166,226	147,380
Interest on capital-asset related debt			(46,157)	(51,107)
Other nonoperating revenues, net			7,306	7,338
Net nonoperating revenues			1,232,956	1,165,927
Loss Before Other Revenues			(137,501)	(257,320)
Capital appropriations			74,587	78,130
Capital grants & gifts			35,711	42,178
Additions to permanent endowments			446	976
Total other revenues			110,744	121,284
Decrease In Net Position			(26,757)	(136,036)
Net position at beginning of year			3,244,324	3,380,360
Net position at end of year			$ 3,217,567	$ 3,244,324

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, 2018 and 2017 (in thousands)

	University of Minnesota Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2018	Total 2017
Revenues					
Contributions	$ 358	$ 187,443	$ 65,642	$ 253,443	$ 224,019
Investment income, net	3,778	9,081	94	12,953	10,112
Net realized and unrealized gains on investments	4,924	163,656		168,580	159,827
Change in value of trusts	(2)	(838)	3,313	2,473	803
Support services revenue	7,165			7,165	7,243
UMF - Real Estate Advisors rental revenue	6,572			6,572	5,983
University Gateway Corporation revenue	4,787			4,787	4,463
Other revenue	1,854			1,854	2,325
Net assets released from restriction	227,158	(227,158)			
Total revenues	256,594	132,184	69,049	457,827	414,775
Expenses					
Program services					
Distributions for educational purposes	188,482			188,482	235,964
Support services					
Management and general	10,274			10,274	10,305
Fund-raising	37,960			37,960	35,775
UMF - Real Estate Advisors	6,476			6,476	6,712
University Gateway Corporation	5,801			5,801	4,970
Total expenses	248,993			248,993	293,726
Increase in net assets	7,601	132,184	69,049	208,834	121,049
Net assets at beginning of year	115,784	1,281,096	1,172,665	2,569,545	2,448,496
Net assets at end of year	$ 123,385	$ 1,413,280	$ 1,241,714	$ 2,778,379	$ 2,569,545

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, 2018 and 2017 (in thousands)

	University of Minnesota Physicians	
	Total (unrestricted)	
	2018	2017
Revenues		
Net patient service revenue	$ 184,259	$ 178,875
Investment income, net	625	860
Net realized and unrealized losses on investments	(82)	(32)
Equity in income of equity method investees	(16,150)	(13,975)
Other revenue	402,402	371,636
Total revenues	571,054	537,364
Expenses		
Program services		
Health care services	532,378	497,400
Support services		
Management and general	55,107	49,174
Total expenses	587,485	546,574
Decrease in net assets	(16,431)	(9,210)
Net assets at beginning of year	114,842	124,052
Net assets at end of year	$ 98,411	$ 114,842

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, 2018 and 2017 (in thousands)

	2018	2017
Cash Flows From Operating Activities		
Grants and contracts (federal, state, nongovernmental, other)	$ 912,244	$ 909,351
Student tuition and fees	797,185	774,812
Auxiliary enterprises	439,505	404,552
Sales and services of educational activities	148,961	152,356
Collection of loans to students	12,262	11,754
Other operating revenues	109	185
Payments to employees for services	(1,724,571)	(1,680,344)
Payments to suppliers for goods and services	(978,280)	(968,090)
Payments for fringe benefits	(565,039)	(534,094)
Payments for scholarships and fellowships	(50,257)	(49,723)
Loans issued to students	(11,939)	(11,666)
Net cash used by operating activities	(1,019,820)	(990,907)
Cash Flows From Noncapital Financing Activities		
State appropriations	684,261	652,209
Grants for other than capital purposes	200,903	201,120
Gifts for other than capital purposes	186,607	204,877
Federal appropriations	19,171	12,273
Other nonoperating revenues, net	10,449	15,689
Private gifts for endowment purposes	446	976
Direct lending receipts	375,479	376,633
Direct lending disbursements	(375,306)	(378,951)
Agency transactions	689	1,905
Net cash provided by noncapital financing activities	1,102,699	1,086,731
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	178,538	50,100
Capital appropriations	72,377	80,750
Capital grants and gifts	34,072	47,465
Proceeds from sale of capital assets	1,482	1,538
Principal received on notes receivable	785	731
Interest received on notes receivable	477	503
Issuance of notes receivable	(84)	
Purchases of capital assets	(279,992)	(304,544)
Principal paid on capital debt	(94,617)	(82,936)
Interest paid on capital debt	(55,813)	(58,340)
Net cash used by capital and related financing activities	(142,775)	(264,733)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	17,942,965	7,575,389
Purchase of investments	(17,896,905)	(7,496,118)
Investment income, net	65,999	68,536
Net cash provided by investing activities	112,059	147,807
Net Increase (Decrease) in Cash and Cash Equivalents	52,163	(21,102)
Cash and Cash Equivalents at Beginning of Year	436,705	457,807
Cash and Cash Equivalents at End of Year	$ 488,868	$ 436,705

University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)
Years ended June 30, 2018 and 2017 (in thousands)

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities	2018	2017
Operating loss	$ (1,370,457)	$ (1,423,247)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation expense	221,797	208,645
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources		
Receivables, net	(30,871)	12,141
Inventories	681	1,926
Prepaid and other items	14,355	(41,643)
Deferred outflows of resources	287,610	310,122
Accounts payable	4,942	1,746
Accrued liabilities	98,902	38,344
Unearned income	2,596	(133)
Deferred inflows of resources	(249,375)	(98,808)
Net cash used by operating activities	$ (1,019,820)	$ (990,907)
Noncash Investing, Capital, and Financing Activities		
Unrealized gains on investments	$ 109,358	$ 82,982
Capital assets on account	29,546	46,666
Net unsettled investment trades	15,606	(32,958)
Amortization of bond discount/premium	6,025	5,877
Net gain on retirement of debt	3,799	
Contribution of capital assets	3,023	2,009
Capital assets acquired with capital lease	2,717	3,057
Cash and Cash Equivalents at End of Year		
Cash and cash equivalents	$ 463,460	$ 387,772
Restricted cash and cash equivalents	25,408	48,933
Total cash and cash equivalents at end of year	$ 488,868	$ 436,705

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

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

Organization

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

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

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

Reporting Entity

The financial reporting entity for the University of Minnesota includes the financial results of the five campuses and, as required under Governmental Accounting Standards Board (GASB) Statement No. 61, (GASB 61), *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, 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 2018 and 2017, the UMF distributed $226,239 and $267,482, 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 2018 and 2017, UMP distributed $97,819 and $96,953, 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 $1,489 and $1,280 as of June 30, 2018 and 2017, 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 2018 and 2017, the University received $416 and $416, respectively, in interest income. As of June 30, 2018 and 2017, $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 $4,033 and $1,165 for fiscal years 2018 and 2017, 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 and differences between expected and actual experience related to the measurement of the respective plan's net pension liability (NPL) and changes in the University's proportionate share in the NPL. Additional information regarding pensions is discussed in Note 6. In addition, a portion of the balance is attributed to the University's UPlan other postemployment benefits (OPEB) for changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the OPEB liability. Additional information regarding other postemployment benefits is discussed in Note 10. The last portion of the balance represents a loss related to the defeasance of long-term debt. Additional information regarding long-term debt is discussed in Note 5.

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 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. In addition, a portion of the balance is attributed to the University's UPlan other postemployment benefits (OPEB) for changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the OPEB liability. Additional information regarding other postemployment benefits is discussed in Note 10. The last 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 $2,241 and $2,809 for fiscal years 2018 and 2017, 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 11.

- During fiscal years 2018 and 2017, departmental research in nonsponsored accounts of $239,214 and $225,561 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.

Cumulative Effect of Change in Accounting Principle—In fiscal year 2018, the University implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and retrospectively recorded the cumulative effect to prior fiscal years. As a result, the University's fiscal year 2017 financial statements were restated as follows:

Consolidated Statement of Net Position	Originally Published 2017	Change	Restated 2017
Total assets	$ 6,116,546	$ (2,803)	$ 6,113,743
Total deferred outflows of resources	1,328,796	3,744	1,332,540
Total liabilities	4,140,232	(112,538)	4,027,694
Total deferred inflows of resources	174,042	223	174,265
Total net position	$ 3,131,068	$ 113,256	$ 3,244,324

Consolidated Statement of Revenues, Expenses, and Changes in Net Position	Originally Published 2017	Change	Restated 2017
Total operating revenues	$ 2,228,329		$ 2,228,329
Total operating expenses	(3,668,090)	$ 16,514	(3,651,576)
Operating loss	(1,439,761)	16,514	(1,423,247)
Net nonoperating revenues	1,165,927		1,165,927
Loss before other revenues	(273,834)	16,514	(257,320)
Total other revenues	121,284		121,284
Decrease in net position	(152,550)	16,514	(136,036)
Net position at beginning of year	3,283,618	96,742	3,380,360
Net position at end of year	$ 3,131,068	$ 113,256	$ 3,244,324

Additional information regarding other postemployment benefits is discussed in Note 10.

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. 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 of 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. 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.

GASB Statement No. 88 (GASB 88), *Certain Disclosures Related to Debt*, *including Direct Borrowings and Direct Placements*, improves the information that is disclosed in the notes to the financial statements related to debt, including direct borrowings and direct placements. This includes additional essential information related to unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The provisions of GASB 88 are effective for fiscal year 2019.

GASB Statement No. 89 (GASB 89), *Accounting for Interest Cost Incurred before the End of a Construction Period*, requires interest cost the University incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, this interest cost incurred will no longer be included in the historical cost of a capital asset. The provisions of GASB 89 are effective for fiscal year 2021.

GASB Statement No. 90 (GASB 90), *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*, defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if the University's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held for fiduciary purposes or in an endowment. The provisions of GASB 90 are effective for fiscal year 2020.

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, 2018 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, 2018:

	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	$ 442,520	$ 20,119	$ 772			$ 49	$ 463,460
Short-term investments	235,889	27,719	68				263,676
Total current assets	678,409	47,838	840			49	727,136
Restricted cash and cash equivalents					$ 25,408		25,408
Long-term investments							
Fixed income	374,453	260,952	70,090			15,426	720,921
Public equity		399,913				32,747	432,660
Private capital		453,307		$ 5,034			458,341
Inflation hedges		147,115					147,115
Other		138,624		23		213	138,860
Total noncurrent investments	374,453	1,399,911	70,090	5,057		48,386	1,897,897
Total cash and investments	$ 1,052,862	$ 1,447,749	$ 70,930	$ 5,057	$ 25,408	$ 48,435	$ 2,650,441

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

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, 2018:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Fixed income				
US agency		$ 223,308		$ 223,308
US Treasury		230,535		230,535
Mortgage-backed securities		100,284		100,284
Return generating fixed income	$ 52,805	22,689		75,494
Risk mitigating fixed income	92,584			92,584
Listed equity				
Global developed equity	111,678			111,678
Diversifiers	39,517	27,695		67,212
Private capital			$ 5,034	5,034
Other	92	2,489		2,581
Total	296,676	607,000	5,034	908,710
Investments measured at net asset value (NAV)				1,252,863
Total investments				$ 2,161,573

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 generating 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

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

The following table summarizes NAV investments as of June 30, 2018:

	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private capital	$ 453,215	$ 253,028	None	None
Fixed income	161,443	92,720	None, monthly, or annually	None; 15 or 60 days
Global equity	232,931		None or monthly	None; 1 day, 2 days, or 30 days
Hedge fund	138,622		Bi-monthly or semi-annually	75 or 90 days
Real estate	68,997	30,491	None or quarterly	None or 30 days
Natural resources	66,869	29,166	None	None
Other	130,786	13,693	None, daily, weekly, or quarterly	None; 2 days, 5 days or 45 days
Total	$ 1,252,863	$ 419,098		

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; 2, 15, or 60 days
Global equity	216,332		None or monthly	None or 30 days
Hedge fund	138,245	35,741	None, 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, weekly, or quarterly	None; 5 or 45 days
Total	$ 1,070,455	$ 397,084		

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

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

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

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

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

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

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

Authorizations

The Board 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) or other illiquid fixed income securities. As of June 30, 2018 and 2017, the market value of the TIP assets invested in the CEF was $136,406 and $132,664, 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, 2018 and 2017, 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, 2018 and 2017, $57,865 and $54,705, respectively, was made available for departmental spending.

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

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

The CEF is a diversified portfolio that utilizes external investment managers. The CEF assets are held in separately managed accounts, commingled pools, and limited partnerships (LP). Each of these fund structures has different risk and return characteristics and different liquidity characteristics. LP investments are privately negotiated transactions with very restricted liquidity. LPs are required to conduct an external audit annually in accordance with the 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, 2018 and 2017, the fair value of the GIP assets invested in the CEF was $15,255 and $14,668, 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—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, 2018:

Fixed income securities		Value	Maturity	AA or better	BBB to A	BB or lower	Not rated
Cash & equivalents	$	316,716		100			
Mortgage-backed securities		100,284	18.1	100			
US agency		223,308	0.8	100			
US Treasury		230,535	2.2	100			
Mutual funds		268,364	5.8	66	14	20	
Total marketable fixed income securities		1,139,207	3.5				
Private fixed income securities		77,301					
Total fixed income securities	$	1,216,508					

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					

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, 2018, and 2017, all securities held in the pools were in compliance with policy guidelines.

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

The following table summarizes the University's exposure to foreign currency risk, stated in U.S. dollar equivalents, as of June 30, 2018 and 2017:

Investment type	Foreign currency	Market value 2018	Market value 2017
Equity/Debt/RE	Euro	$ 65,383	$ 67,786
Equity	Japanese Yen	29,029	31,613
Equity	British Pound Sterling	17,542	32,702
Equity	Australian Dollar	4,531	6,548
Equity	Canadian Dollar	4,422	8,504
Equity/Debt	Hong Kong Dollar	2,910	7,426
Equity/Debt	Swedish Krona	2,769	4,900
Equity	Norwegian Krone	2,082	1,770
Equity	Singapore Dollar	1,945	2,241
Equity	Swiss Franc	1,783	6,943
Equity	New Taiwan Dollar	1,287	8,116
Equity	Israeli Shekel	980	1,388
Equity	South Korean Won	836	14,092
Equity	New Zealand Dollar	670	1,060
Equity/Debt	Mexican Peso	623	11,575
Equity	Malaysian Ringgit	581	801
Equity	South African Rand	448	6,135
Equity/Debt	Brazilian Real	372	12,288
Equity	Danish Krone	357	1,263
Equity	Thailand Baht	356	1,482
Equity	Qatari rial	191	
Equity/Debt	Turkish Lira	118	
Equity	Indonesian Rupiah	95	3,741
Equity/Debt	Philippine Peso	19	663
Equity	Polish Zloty	11	202
Equity	Czech Koruna	1	
Equity	Argentine Peso		3,894
Equity	Chinese Renminbi		3,024
Equity	Indian Rupee		1,541
Equity/Debt	Russian Ruble		400
Equity/Debt	Turkish Lira		393
Equity	Uruguay Peso		109
Equity	Chile Peso		92
Equity	Other currency		11,017
Total		$ 139,341	$ 253,709

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, 2018 the University's bank balances of $316,095 were uninsured and uncollateralized and as of June 30, 2017 the University's bank balances of $298,257 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, 2018 and 2017, the market value of investments held in the custodial accounts was $610,342 and $642,074 in TIP; $155,379 and $180,687 in CEF; and $22,689 and $22,447 in GIP, respectively.

3. Other Asset and Liability Information

Receivables, net, and student loans receivable as of June 30, 2018, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 9,171		$ 9,171
Sponsored grants and contracts	89,639		89,639
Notes receivable	879	$ 11,037	11,916
Student receivables	25,453		25,453
Trade receivables	165,921		165,921
Accrued interest	2,654		2,654
Other	29,057	2	29,059
Allowance for uncollectible accounts	(13,033)		(13,033)
Total receivables, net	$ 309,741	$ 11,039	$ 320,780
Student loans receivable	13,194	64,224	77,418
Allowance for uncollectible accounts	(3,115)	(642)	(3,757)
Student loans receivable, net	$ 10,079	$ 63,582	$ 73,661

Accrued liabilities as of June 30, 2018, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 22,256	$ 738	$ 22,994
Compensation and benefits	209,290	1,164,425	1,373,715
Self-insurance reserves	43,282	12,054	55,336
Accrued interest	16,227		16,227
Refundable advances		54,744	54,744
Other	24,641	18,439	43,080
Total accrued liabilities	$ 315,696	$ 1,250,400	$ 1,566,096

Activity for certain liabilities consisted of the following for the year ended June 30, 2018:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances	$ 2,173,285	$ 205,750	$ (1,005,320)	$ 1,373,715	$ 209,290
Self-insurance reserves (see Note 9)	52,001	291,369	(288,034)	55,336	43,282
Refundable advances	54,262	482		54,744	
Other	42,253	43,080	(42,253)	43,080	24,641

Receivables, net, and student loans receivable, net, 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	26,539	2	26,541
Allowance for uncollectible accounts	(12,472)		(12,472)
Total receivables, net	$ 270,118	$ 11,869	$ 281,987
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	203,957	1,969,328	2,173,285
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	$ 309,116	$ 2,051,375	$ 2,360,491

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	$ 496,096	$ 1,875,665	$ (198,476)	$ 2,173,285	$ 203,957
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

4. Capital Assets

Capital assets, net as of June 30, 2018, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements & Reductions	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 4,056,558	$ 11,996	$ 342,941	$ (295)	$ 4,411,200
Leasehold improvements	15,795	226	294		16,315
Equipment	794,146	47,702	1,045	(53,816)	789,077
Infrastructure	459,970		(1,720)		458,250
Library and reference books	163,166	3,500			166,666
Capitalized software (intangible asset)	172,004	7,633			179,637
All other intangible assets	6,903				6,903
Total depreciable / amortizable capital assets	5,668,542	71,057	342,560	(54,111)	6,028,048
Non-depreciable / amortizable capital assets					
Land	154,416	8,124	195		162,735
Direct financing lease - building	160,990			(2,820)	158,170
Museums and collections	85,063	2,775	300		88,138
Construction in progress	258,090	190,581	(343,055)		105,616
Permanent right-of-way easements (intangible asset)	3				3
Total non-depreciable / amortizable capital assets	658,562	201,480	(342,560)	(2,820)	514,662
Accumulated depreciation / amortization					
Buildings and improvements	(2,027,477)	(127,812)	(17)	291	(2,155,015)
Leasehold improvements	(9,852)	(3,353)			(13,205)
Equipment	(584,121)	(57,914)		50,158	(591,877)
Infrastructure	(293,678)	(14,086)	17		(307,747)
Library and reference books	(126,958)	(5,753)			(132,711)
Capitalized software (intangible asset)	(137,887)	(12,451)			(150,338)
All other intangible assets	(6,072)	(428)			(6,500)
Total accumulated depreciation / amortization	(3,186,045)	(221,797)		50,449	(3,357,393)
Capital assets, net	$ 3,141,059	$ 50,740		$ (6,482)	$ 3,185,317

Summary					
Depreciable / amortizable capital assets	$ 5,668,542	$ 71,057	$ 342,560	$ (54,111)	$ 6,028,048
Non-depreciable / amortizable capital assets	658,562	201,480	(342,560)	(2,820)	514,662
Total capital assets	6,327,104	272,537		(56,931)	6,542,710
Less accumulated depreciation / amortization	(3,186,045)	(221,797)		50,449	(3,357,393)
Capital assets, net	$ 3,141,059	$ 50,740		$ (6,482)	$ 3,185,317

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
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

5. Long-Term Debt

Long-term debt as of June 30, 2018, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY 2018 beginning balance	Additions	Reductions	FY 2018 ending balance	Current portion
General obligation bonds									
Series 2017A (tax-exempt)	$ 117,095	2018	2.00%-5.00%	2043		$ 117,095		$ 117,095	2,585
Series 2017B (tax-exempt)	292,955	2018	2.00%-5.00%	2037		292,955	$ 37,185	255,770	33,300
Series 2017C (tax-exempt)	13,240	2018	1.375%-2.915%	2029		13,240	1,195	12,045	985
Series 2016A (tax-exempt)	122,475	2016	3.00%-5.00%	2041	$ 119,850		2,800	117,050	2,900
Series 2015B (taxable)	10,110	2016	0.799%-4.039%	2032	9,585		530	9,055	535
Series 2014B (tax-exempt)	145,760	2015	2.00%-5.00%	2044	142,975		2,895	140,080	2,980
Series 2013D (taxable)	12,760	2014	0.60%-4.848%	2039	11,825		360	11,465	365
Series 2013B (taxable)	13,780	2013	2.60%-3.75%	2038	12,275		415	11,860	430
Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038	65,985		2,070	63,915	2,130
Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	47,400		47,400		
Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	16,875		565	16,310	585
Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	204,020		204,020		
Series 2010B (taxable)	41,720	2011	0.74%-5.02%	2036	34,185		1,385	32,800	1,410
Series 2010D (taxable)	27,200	2010	3.86%-5.768%	2030	25,610		1,630	23,980	1,675
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	20,380		20,380		
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	12,085		12,085		
Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	32,505		32,505		
Commercial paper notes, Series A (tax-exempt)	159,100	2006	1.24%-1.65%	2019	80,000		12,000	68,000	68,000
Commercial paper notes, Series B (tax-exempt)	61,000	2007	1.22%-1.64%	2019	31,000		3,100	27,900	27,900
Commercial paper notes, Series C (tax-exempt)	70,000	2008	1.25%-1.54%	2019	36,500		3,500	33,000	33,000
Commercial paper notes, Series D (tax-exempt)	25,000	2010	1.38%	2019	15,300		1,000	14,300	14,300
Commercial paper notes, Series E (taxable)	51,620	2015	1.90%-2.04%	2019	49,420		2,200	47,220	47,220
Commercial paper notes, Series F (tax-exempt)	50,100	2017	1.18%-1.64%	2019	50,100		2,000	48,100	48,100
Commercial paper notes, Series G (tax-exempt)	32,000	2018	1.60%	2019		32,000		32,000	32,000
Obligations to the State of Minnesota pursuant to Infrastructure development bonds	109,234	1995-2006	3.55%-5.29%	2026	11,324		2,790	8,534	2,392
Special purpose revenue bonds, Series 2015A (tax-exempt)	90,075	2016	2.00%-5.00%	2032	85,490		4,745	80,745	4,995
Special purpose revenue bonds, Series 2013C (tax-exempt)	35,395	2014	2.00%-5.00%	2039	33,325		885	32,440	930
Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%-5.00%	2037	47,075		1,415	45,660	1,490
Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%-5.00%	2036	96,770		3,215	93,555	3,375
Unamortized premiums and discounts	197,106	2009-2018		2044	103,712	67,300	37,487	133,525	6,821
Capital leases and other		1999-2018	2.78%-4.21%	2025	32,075	2,718	6,737	28,056	6,391
Total	$ 2,463,385				$1,464,976	$ 525,308	$ 448,494	$ 1,541,790	$ 346,794

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

	Original issued	Fiscal year issued	Coupon rates	Due at various	FY 2017 beginning	Additions	Reductions	FY 2017 ending	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

General Obligation Bonds

On September 28, 2017, the University issued General Obligation (GO) Bonds, Series 2017A, GO Refunding Bonds, Series 2017B, and GO 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 are being 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 GO Bonds Series 2009A, Series 2009C, Series 2011A and Series 2011D. A gain of $4,548 was recognized on the transaction. Debt service savings totaling a net present value of $27,043, calculated using a discount rate of 2.152 percent to the date of refunding, will be realized over the life of the bond series.

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 GO Taxable Bonds Series 2009B. A loss of $749 was recognized on the transaction. Debt service savings totaling a net present value of $1,523, calculated using a discount rate of 2.564 percent to the date of refunding, will be realized over the life of the bond series.

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

On April 13, 2016, the University issued GO Bonds, Series 2016A in the par amount of $122,475. The proceeds are being 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 on the Twin Cities campus and construction of a new Wellness Center on 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 GO Taxable Bonds, Series 2015B in the par amount of $10,110 at coupon rates of 0.799 – 4.039 percent. Proceeds are being 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.

The University has outstanding GO 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 6.6 percent and 6.9 percent in the federal fiscal years ending September 30, 2018 and 2017, respectively.

All GO bonds are secured by the full faith and credit of the University and subject to mandatory sinking fund requirements set forth in the 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. 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 appropriation of $10,250 to reimburse the University for the annual debt service on these bonds, the Series 2015B GO 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 October 12, 2017, the Board of Regents authorized a revolving commercial paper (CP) facility through which the University may issue tax-exempt and taxable CP Notes for short or long-term financing of capital projects, including the purchase of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment. The aggregate principal amount outstanding under the facility shall not exceed $400,000, including the previously-issued Notes Series A – F still outstanding and additional Notes Series G – I to be issued.

On June 21, 2018, the University issued CP Notes Series G in the initial amount of $32,000 at an annual rate of 1.6 percent with a maturity date of 61 days. The proceeds will be used to pay for a portion of the cost of the Athletes Village Project.

On February 15, 2017, the University issued tax exempt CP Notes Series F in the amount of $50,100 at initial rates of 0.65 – 0.78 percent. The proceeds are being used for renovation of the Old Main Heating Plant located on the Twin Cities campus.

In addition, the University has outstanding tax-exempt CP Notes, Series A, B, C, and D, and taxable CP Notes Series E, which were issued to defease outstanding bond obligations and to finance University purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment.

The commercial paper is secured by the full faith and credit of the University and backed by the University's self-liquidity.

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

Infrastructure Development Bond Obligations

Pursuant to Minnesota law, the University is obligated to pay the State one third of the debt service of infrastructure development bonds issued by the State for University capital projects. Debt was issued for this purpose between July 1990 and October 2005. The total amount of outstanding debt issued by the State on behalf of the University was $25,602 and $33,973 as of June 30, 2018 and 2017, respectively, of which the University owes $8,534 and $11,324, respectively.

Capital Leases and Other Debt

The University has five distinct capital leases. Four of the capital leases have payments being paid directly to the lessor and represent leases for building space. One of the five agreements is financed through third-party financing for purchase of fleet vehicles. As of June 30, 2018, the associated capital assets were $55,799 for buildings and $14,593 for vehicles with related accumulated depreciation of $34,924 and $7,413, respectively. The capital leases bear interest rates between 2.78 percent and 4.21 percent, with none of the leases extending beyond fiscal year 2025. The third-party financing agreement bears interest tied to the 30 Day LIBOR Index, which ranged from 2.78 - 3.65 percent during the fiscal year ended June 30, 2018. The LIBOR Index is an average yield of interbank offered rates for one-year US dollar denominated deposits.

Interest Rate Swaps

The University's last remaining freestanding pay-fixed and receive-variable interest rate swap, which was considered an ineffective hedge, matured on August 28, 2017. There are no outstanding interest rate swaps as of June 30, 2018.

Future Debt Service Requirements

Commercial paper interest payments will vary depending on current market conditions from week to week. Using rates as of June 30, 2018, debt service requirements of the University's outstanding long-term debt obligations for the next five years and in subsequent five-year periods are as follows:

	Bonds and obligations	Commercial paper notes	Capital lease and other	Total principal	Interest	Total obligations
Fiscal year ending June 30						
2019	$ 69,884	$ 270,520	$ 6,391	$ 346,795	$ 56,061	$ 402,856
2020	58,866		6,007	64,873	49,632	114,505
2021	60,514		5,953	66,467	46,952	113,419
2022	62,746		3,448	66,194	40,812	107,006
2023	54,549		2,958	57,507	41,609	99,116
2024-2028	304,749		3,299	308,048	169,286	477,334
2029-2033	293,328			293,328	101,743	395,071
2034-2038	221,490			221,490	48,368	269,858
2039-2043	108,112			108,112	13,352	121,464
2044-2049	8,976			8,976	350	9,326
	$ 1,243,214	$ 270,520	$ 28,056	$ 1,541,790	$ 568,165	$ 2,109,955

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, 2018	Bond call date
General obligation bonds Series 1996A	10/2/2005	159,000	159,000	$ 68,000	7/1/2021

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 December 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 GO 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 as of June 30, 2018 or 2017.

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 nine 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 two 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 67 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			
2018	$ 73	$ 3	$ 52
2017	97	3	52
2016	109	5	54
University			
2018	$ 73	$ 18	$ 893
2017	97	22	892
2016	109	30	1,232
Due to plan at June 30*			
2018	$ 6	$ 1	$ 54
2017	11	1	56
2016	11	2	53

**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 65 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 24 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 a 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 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	$ 1,020	$ 24,060
Non-employer contributing entity	53	

Net pension liability amounts recorded in accordance with GASB 68 and GASB 71 within the University's financial statements are reflective of the respective plan's published financial statements and actuarial valuations as of June 30, 2017. 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, 2016, through June 30, 2017, 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 2018, are recorded as deferred outflows of resources per GASB 68 and GASB 71.

Summary of Pension Amounts

	PEPFF	SERF	Total
Proportionate share of the net pension liability ($)	$ 7,952	$ 1,105,713	$ 1,113,665
Proportionate share of the net pension liability (%)			
2018	0.589%	14.906%	
2017	0.604%	15.200%	
Deferred outflows of resources	24,808	918,228	943,036
Deferred inflows of resources	26,920	691,460	718,380
Net pension expense	1,457	160,337	161,794
Non-operating grant revenue	53		53

Deferred Outflows of Resources

	PEPFF	SERF	Total
Differences between expected and actual experience	$ 187	$ 7,856	$ 8,043
Changes in actuarial assumptions	11,329	903,912	915,241
Changes in proportion and differences between actual contributions and proportionate share of contributions	12,272	(17,599)	(5,327)
Contributions paid to plan subsequent to measurement date	1,020	24,059	25,079
Total	$ 24,808	$ 918,228	$ 943,036

Deferred Inflows of Resources

	PEPFF	SERF	Total
Differences between expected and actual experience	$ 2,190	$ 31,840	$ 34,030
Changes in actuarial assumptions	11,290	606,783	618,073
Differences between projected and actual investment earnings	625	26,488	27,113
Changes in proportion and contributions allocated	12,815	26,349	39,164
Total	$ 26,920	$ 691,460	$ 718,380

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

	Fiscal year	PEPFF	SERF	Total
	2019	$ (372)	$ 61,966	$ 61,594
	2020	437	153,211	153,648
	2021	(195)	158,273	158,078
	2022	(680)	(170,741)	(171,421)
	2023	(2,322)		(2,322)
Net pension expense		$ (3,132)	$ 202,709	$ 199,577
Contributions paid to plan subsequent to measurement date		1,020	24,059	25,079
Net deferred outflows		$ (2,112)	$ 226,768	$ 224,656

The University's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the respective plans. The total pension liability was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

Actuarial Methods and Assumptions

	PEPFF*		SERF**	
Valuation date	6/30/2017		6/30/2017	
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	3.56%	***	3.56%	***
Inflation	2.50%		2.50%	
Salary increases	Service related rates		Service related rates	
Payroll growth	3.25%		3.25%	
Experience study dates	2016	****	2008 - 2014	

** Mortality rates were based on RP-2014 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 Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017.*

***** 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, 2017 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	39%	5.10%
International stocks	19%	5.30%
Bonds	20%	0.75%
Alternative assets	20%	5.90%
Unallocated cash	2%	0.00%

GASB includes a specific requirement for the discount rate that is used for the purpose of the measurement of the SERF's and PEPFF's total pension liability. This rate considers the ability of SERF and PEPFF to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. SERF's and

PEPFF's Fiduciary Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in the future, the long-term expected rate of return is used as the discount rate. In years where assets are not projected to be sufficient to meet benefit payments, the use of a "risk-free" municipal bond rate is required. The single discount rate is equivalent to applying these two rates (long-term expected rate of return and "risk-free" municipal bond rate) to the benefits that are projected to be paid during the different time periods.

The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in the statute. Based on that assumption, each of the pension plan's fiduciary net position at June 30, 2017, 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, 2049 for SERF and June 30, 2061 for PEPFF to determine the total pension liability. After those dates in time, the "risk-free" municipal bond rate of 3.56 percent was used for remaining time periods arriving at a single discount rate of 5.42 percent for SERF and 7.5 percent for PEPFF.

Notable impacts affecting the University's total net pension liability reported for fiscal year ended June 30, 2018 compared to fiscal year ended June 30, 2017, 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 5.6 percent to 7.5 percent, and for SERF, the single discount rate changed from 4.17 percent to 5.42 percent.

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 5.42 percent for SERF and 7.5 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 (%)	6.50%	7.50%	8.50%
Net pension liability ($)	$ 14,976	$ 7,952	$ 2,153
SERF			
Discount rate (%)	4.42%	5.42%	6.42%
Net pension liability ($)	$ 1,549,237	$ 1,105,713	$ 743,292

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 90 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 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 9,700 active faculty and professional and administrative (P&A) staff. This amount includes approximately 4,800 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 3,800 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. Seven University employees are part of this plan.

Contributions Made for Fiscal Year 2018

	FRP	ORP	457	415(m)
Employee	$ 34,730	$ 41,370	$ 15,085	N/A
University	111,172	293	N/A	$ 425

Due to plan at June 30*

	FRP	ORP	457	415(m)
Employee	$ 2,057	$ 2,314	$ 808	N/A
University	6,481	N/A	N/A	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 $105,616 on June 30, 2018. The estimated cost to complete these facilities is $248,981, which is to be funded from plant fund assets and $103,027 in appropriations available from the State of Minnesota as of June 30, 2018.

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, 2014, 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, 2018 and 2017, were $26,583 and $17,864, respectively, of which $23,162 and $14,235 were for real property and $3,421 and $3,629 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2018, for the next five years and in subsequent five-year periods are as follows:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2019	246	14,740	14,986
2020		11,786	11,786
2021		11,294	11,294
2022		10,106	10,106
2023		2,593	2,593
2024-2028		8,569	8,569
2029-2033		8,534	8,534
2034-2038		2,261	2,261
2039-2043		241	241
Total commitments	$ 246	$ 70,124	$ 70,370

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 2.44 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 $350,000 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). 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, 2018, are shown below:

	Liability beginning of year	New claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 9,255	$ 2,979	$ (2,512)	$ (348)	$ 9,374
Workers' compensation	13,718	4,136	(4,136)	(1,369)	12,349
UPlan medical	18,912	244,870	(245,511)	4,238	22,509
UPlan dental	1,014	17,369	(16,829)	(538)	1,016
Graduate assistant health plan	3,764	21,541	(21,541)	513	4,277
Student health plan	4,882			226	5,108
Medical residents & fellows	456			247	703

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

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

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

10. 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 benefit provision process is initiated through the Benefits Advisory Committee (BAC). The BAC comprises representatives from all employee groups who advise the University administration on health program benefit offerings. An internal UPlan financial report is prepared on a calendar year basis. Questions regarding the UPlan may be directed to Total Compensation, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Contributions and Benefits Provided

The UPlan is currently financed on a pay-as-you-go basis. No assets are accumulated in a trust that meets the criteria prescribed in GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The University has established that a former employee must pay the entire premium for continuation coverage, except as otherwise provided in a collective bargaining agreement or personnel policy. Non-Medicare retirees and eligible participants under the Academic Disability Plan (ADP) can purchase medical and dental insurance coverage at the full premium rate. These rates are based on a blended active and pre-Medicare retiree rate. With the University being self-insured, the University becomes liable for the actual cost of retiree and disability related healthcare costs in excess of premiums collected. As a result, an implicit subsidy is created, which is reflected in the OPEB liability that is recorded.

UPlan Membership Covered by Benefit Terms

UPlan membership	
Active plan members	19,331
Inactive plan members or beneficiaries currently receiving benefits	470
Total	19,801

OPEB Liability

The University's OPEB liability was measured and determined as of June 30, 2018 in accordance with GASB 75.

The components that contributed to the change in the University's OPEB liability are as follows:

OPEB liability—June 30, 2017		32,461
Changes in net OPEB liability:		
Service cost		3,763
Interest		1,202
Differences between expected and actual experience		2,596
Changes of actuarial assumptions or other inputs		(120)
Benefit payments		(4,966)
Increase in OPEB liability		2,475
OPEB liability—June 30, 2018	$	34,936

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan, the plan as understood by the employer and plan members. This includes the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions applied to the measurement of the OPEB liability are as follows:

Actuarial Methods and Assumptions

Valuation date	6/30/2018	
Actuarial cost method	Entry age normal, level percent of pay	
Asset valuation method	N/A	
Discount rate	3.62%	*
Inflation	2.75%	
Salary increases	4.00% average including inflation	
Mortality	RP-2014 rolled back to 2006 and projected by modified 2016 scale	
Experience applied	FY2015 - FY2017	

** Based on a AA/Aa or higher rated 20-year tax exempt muncipal bond rate.*

The University's OPEB liability is sensitive to changes in the discount rate and healthcare cost trends rates.

The following presents the OPEB liability of the University, as well as what the University's OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower and or 1.0 percentage point higher than the current discount rate:

Discount Rate Sensitivity

	1.0% Decrease (2.62%)	Discount rate (3.62%)	1.0% Increase (4.62%)
OPEB liability ($)	$ 36,934	$ 34,936	$ 32,949

The following presents the OPEB liability of the University, as well as what the University's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0 percentage point lower (6.0 percent decreasing to 4.0 percent) or 1.0 percentage point higher (8.0 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

Healthcare Cost Trend Rate Sensitivity

	1.0% Decrease (6.0% decreasing to 4.0%)	Healthcare cost trend rates (7.0% decreasing to 5.0%)	1.0% Increase (8.0% decreasing to 6.0%)
OPEB liability ($)	$ 30,381	$ 34,936	$ 40,343

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

In accordance with GASB 75, the University recorded $6,686 in OPEB expense for the fiscal year ended June 30, 2018. In addition, the University reported the following deferred outflows of resources and deferred inflows of resources from the following sources:

Deferred Outflows of Resources and Deferred Inflows of Resources

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,314	$ 165
Changes in assumptions	1,223	96
Total	$ 4,537	$ 261

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB as expense as follows:

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

	Fiscal year	Total
	2019	$ 1,720
	2020	1,477
	2021	641
	2022	438
Net deferred outflows		$ 4,276

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

11. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2018, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 727,585	$ 99,615			$ 827,200
Research	508,796	259,341			768,137
Public service	192,082	93,169			285,251
Academic support	371,087	94,232			465,319
Student services	115,880	26,985			142,865
Institutional support	229,068	85,701			314,769
Operation and maintenance of plant	136,189	174,485			310,674
Scholarships and fellowships	10,570	2,930	$ 51,089		64,589
Depreciation				$ 221,797	221,797
Auxiliary enterprises	131,045	166,666			297,711
Other operating expenses, net			120		120
	$ 2,422,302	$ 1,003,124	$ 51,209	$ 221,797	$ 3,698,432

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	$ 729,649	$ 98,131			$ 827,780
Research	506,469	256,941			763,410
Public service	202,876	101,392			304,268
Academic support	375,410	86,132			461,542
Student services	116,591	28,235			144,826
Institutional support	240,864	56,515			297,379
Operation and maintenance of plant	144,823	143,765			288,588
Scholarships and fellowships	10,623	2,891	$ 48,546		62,060
Depreciation				$ 208,645	208,645
Auxiliary enterprises	138,518	154,266			292,784
Other operating expenses, net			294		294
	$ 2,465,823	$ 928,268	$ 48,840	$ 208,645	$ 3,651,576

12. Subsequent Events

University of Minnesota Health Agreement

On September 28, 2018, the University's Board of Regents approved an agreement with Fairview Health Services and University of Minnesota Physicians to create a nationally renowned academic health system. The agreement expands the organizations' current University of Minnesota Health (M Health) partnership to bring together the University of Minnesota Medical Center and Fairview's 11 hospitals, 56 primary care clinics, and other services into a shared delivery system. The agreement is effective January 1, 2019 and will continue through December 31, 2026, with an option for a 10-year extension in 2023.

Fairview will continue with its investment of $111 million in University of Minnesota Medical Center and Masonic Children's Hospital. The capital improvements funded by the investment will focus on improvements in operating rooms, conversions to private patient rooms, and enhanced education space. In addition, Fairview will pay University of Minnesota Medical School fixed academic support payments at an annualized rate of $35 million, prorated to December 31, 2018. The University will receive approximately $185 million, for the calendar years 2019 to 2022. For calendar year 2023 and each succeeding year of the agreement, the University will receive an amount equal to the Fixed Academic Support payment of the preceding calendar year increased by the consumer price index (CPI) for the preceding calendar year.

Debt Issuance

Subsequent to fiscal year-end, the University issued additional Commercial Paper (CP) Notes under the revolving CP facility that was discussed in Note 5.

Series G Notes were issued on August 21, 2018 in the amount of $1,100 to cover costs related to the Athletes Village Project.

Series H Notes were issued on July 10, 2018, August 24, 2018, September 24, 2018 and October 25, 2018 in the amount of $20,000, $6,400, $5,263 and $1,189, respectively. The proceeds of Series H are being used to cover a portion of the costs of six discrete projects including the Pioneer Hall renovation and the Health Science Education Center construction on the Twin Cities Campus, and the construction of the Chemical and Advanced Materials Science Building on the Duluth campus.

13. Component Units

Discretely Presented Component Units

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

Investments

Investments in cash equivalents, corporate bonds, other fixed income securities, equity securities, 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 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:

	2018		
	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 151,796		$ 151,796
Fixed income	863,464	$ 539,571	1,403,035
Global equity	209,978	55,845	265,823
Hedge funds	18,990	78,758	97,748
Natural resources	10,966	108,848	119,814
Treasury inflation protected securities (TIPS)	35,380		35,380
Real estate		56,929	56,929
Private equity		546,969	546,969
Other investments		6,258	6,258
Subtotal	1,290,574	1,393,178	2,683,752
Less charitable gift annuities reported separately			(29,146)
Total			$ 2,654,606

	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

Fixed income investments include high yield bonds, factored receivables, line of credit, bank loans, mortgage, and related securitizations.

Investments held in traditional structures represent those held directly by 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, 2018 and 2017, UMF has $1,393,178 and $1,175,521 respectively, of investments in alternative structures which are reported at net asset value as a practical expedient, except those reported as Level 3, Loans Measured at Cost and Investment Held in LLC 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 (in thousands) UMF's financial assets and other liabilities measured at fair value on a recurring basis at June 30, 2018 and 2017:

	2018			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Investments				
Fixed income				
Asset backed securities		$ 4,304		$ 4,304
Mortgages		3,673		3,673
Corporate bonds		27,381		27,381
Government		823,687		823,687
Other	$ 2,082	2,337		4,419
Global equity				
Small cap	1,670			1,670
Large cap	208,308			208,308
Hedge funds				
Long/short non-equity	18,990		$ 1,831	20,821
Natural resources	10,966			10,966
Treasury inflation protected securities (TIPS)		35,380		35,380
Total investments	$ 242,016	$ 896,762	$ 1,831	1,140,609
Cash and cash equivalents				151,796
Investments measured at net asset value or its equivalent				1,222,930
Private partnerships invested in nonmarketable receivables and loans measured at cost				132,476
Investment held in LLC				35,941
Total investments and cash				$ 2,683,752
Gift annuities not categorized above	$ 1,729			$ 1,729
Beneficial interest in perpetual trusts			$ 63,443	63,443
Assets held in charitable trusts	20,001			20,001
Beneficial interest in trusts			3,003	3,003
UGC derivative financial instrument		$ (1,136)		(1,136)

Assets held in charitable trusts consist of equities, bonds, and cash.

	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
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)

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

	Beginning balance at July 1, 2017	Investment income	Net realized and unrealized gain (loss)	Purchases	Sales	Ending balance at June 30, 2018
Fixed income						
Other	$ 2,767	$ 1,128	$ (288)		$ (3,607)	
Hedge funds						
Long/short non-equity	3,379	74	359	$ 70	(2,051)	$ 1,831
	$ 6,146	$ 1,202	$ 71	$ 70	$ (5,658)	$ 1,831

	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
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

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

	Beginning balance at July 1, 2017	Change in carrying value of trusts	Ending balance at June 30, 2018
Beneficial interest in trusts	$ 3,313	$ (310)	$ 3,003
Beneficial interest in perpetual trusts	63,287	156	63,443

	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

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 (in thousands):

	2018			
	Net asset value	Unfunded commitments	Redemption frequency	Redemption notice period
Alternative investments				
Fixed income	$ 384,954	$ 281,269	None or quarterly	None or 60 days
Global equity	42,045		None or daily to quarterly	None or 0-60 days
Hedge funds	76,928		None or monthly to quarterly	None or 0-90 days
Natural resources	108,847	20,154	None	None
Real estate	56,929	30,567	None	None
Private equity	546,969	166,336	None	None
Other investments	6,258		None	None
Total	$ 1,222,930	$ 498,326		

	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		

UMF's alternative investments which are redeemable at net asset value under the original terms of the partnership agreements and/or subscription agreements and operations of the underlying funds may be restricted or eliminated by the funds in the future in accordance with the underlying fund agreements. Due to the nature of the investments held by the funds, changes in market conditions and the economic environment may significantly impact the net asset value of the funds and, consequently, the fair value of the UMF's interest in the funds.

Investment Commitments

As of June 30, 2018, UMF also had unfunded commitments of $24,251 and $1,957 for Loans Measured at Cost and Investment Held in LLC, respectively.

In addition to the unfunded commitments noted above, UMF has entered into investment commitments of $89,800 since June 30, 2018 which are expected to be paid within one year.

Net Assets

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as a release from restriction.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available as of June 30 for the following purposes (in thousands):

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:

	2018	2017
Capital improvement/facilities	$ 9,503	$ 8,874
Faculty and staff support	13,035	11,920
Scholarships and fellowships	156,868	137,650
Lectureships, professorships, and chairs	214,788	195,904
Program support	59,548	57,636
Research and outreach/community engagement	19,832	15,082
Other	2,699	2,668
Subtotal	$ 476,273	$ 429,734
Gifts and other unexpended revenues and gains available for:		
Capital improvement/facilities	$ 130,839	$ 130,757
Faculty and staff support	22,079	21,856
Scholarships and fellowships	144,110	135,504
Lectureships, professorships, and chairs	45,492	45,685
Program support	408,654	348,853
Research and outreach/community engagement	170,031	152,865
Trusts	7,571	9,013
Other	8,231	6,829
Subtotal	937,007	851,362
Total temporarily restricted net assets	$ 1,413,280	$ 1,281,096

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 (in thousands):

	2018	2017
Capital improvement/facilities	$ 10,004	$ 9,945
Faculty and staff support	29,598	28,184
Scholarships and fellowships	553,711	512,368
Lectureships, professorships, and chairs	405,811	388,372
Program support	98,401	96,712
Research and outreach/community engagement	71,325	64,768
Trusts	69,126	68,941
Other	3,738	3,375
Total permanently restricted net assets	$ 1,241,714	$ 1,172,665

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, 2018 and 2017 for RUMINCO, Ltd, a blended component unit of the University, are as follows (in thousands):

Condensed statements of net position	2018	2017
Current assets	$ 106	$ 93
Noncurrent assets	48,386	45,330
Total assets	48,492	45,423
Deferred outflows of resources		
Total assets & deferred outflows of resources	48,492	45,423
Current liabilities	2,822	2,580
Noncurrent liabilities	2,520	2,341
Total liabilities	5,342	4,921
Deferred inflows of resources		
Total liabilities & deferred inflows of resources	5,342	4,921
Unrestricted net position	$ 43,150	$ 40,502

Condensed statements of revenues, expenses, and changes in net position	2018	2017
Operating revenues:		
Net underwriting income	$ 895	$ 304
Operating expenses	1,459	1,180
Operating loss	(564)	(876)
Nonoperating revenues:		
Investment income, net	3,212	4,621
Increase in net position	2,648	3,745
Net position at beginning of year	40,502	36,757
Net position at end of year	$ 43,150	$ 40,502

Condensed statements of cash flows	2018	2017
Net cash provided (used) by:		
Operating activities	$ 226	$ 631
Investing activities	(237)	(602)
Net increase (decrease) in cash	(11)	29
Cash at beginning of year	60	31
Cash at end of year	$ 49	$ 60

Required Supplementary Information (Unaudited)

Required Supplementary Information (RSI) (Unaudited)
Years ended June 30, 2018 and 2017 (in thousands)

Other Postemployment Benefits (OPEB)

Schedule of Employer's Contributions

Year Ended June 30	OPEB Liability (a)	University's Covered-Employee Payroll (b)	Contributions as a Percentage of Covered-Employee Payroll (c) = a / b
2018	$ 34,936	$ 1,439,621	2.43%
2017	32,461	1,384,251	2.35%
2016	32,447	1,350,645	2.40%

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

Schedule of Changes in Total OPEB Liability

Total OPEB Liability at June 30	2018	2017	2016
Service cost	$ 3,763	$ 3,446	$ 2,961
Interest	1,202	973	1,150
Differences between expected and actual experience	2,596	(281)	3,374
Changes of actuarial assumptions or other inputs	(120)	1,023	1,674
Benefit payments	(4,966)	(5,147)	(5,794)
Increase in OPEB liability	2,475	14	3,365
Total OPEB liability—beginning	32,461	32,447	29,082
Total OPEB liability—ending	$ 34,936	$ 32,461	$ 32,447

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

Additional information is provided in Note 10.

Notes to Required Supplementary Information

No assets are accumulated in a trust that meets the criteria prescribed in GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Schedules of the Employer's Share of Net Pension Liability

Public Employee Police and Fire Fund (PEPFF)*

Actuarial valuation date	University's Proportion of the Net Pension Liability (%) (a)	University's Proportionate Share of the Net Pension Liability ($) (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
6/30/2017	0.589%	$ 7,952	$ 6,046	131.525%	85.43%
6/30/2016	0.604%	24,240	5,818	416.638%	63.88%
6/30/2015	0.613%	6,965	5,781	120.481%	86.61%
6/30/2014	0.608%	6,567	5,255	124.967%	87.07%

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

State Employees Retirement Fund (SERF)*

Actuarial valuation date	University's Proportion of the Net Pension Liability (%) (a)	University's Proportionate Share of the Net Pension Liability ($) (b)	University's Covered-Employee Payroll (c)	University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (d) = (b)/(c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (e)
6/30/2017	14.906%	$ 1,105,713	$ 428,771	257.880%	62.73%
6/30/2016	15.200%	1,884,630	417,703	451.189%	47.51%
6/30/2015	15.424%	237,436	451,306	52.611%	88.32%
6/30/2014	16.031%	259,954	410,364	63.347%	87.64%

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

Notes to Required Supplementary Information

In the fiscal years ended June 30, 2018 and 2017 for the University, 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 5.6 percent to 7.5 percent in fiscal year 2018, and from 7.9 percent to 5.6 percent in fiscal year 2017. For SERF, the single discount rate changed from 4.17 percent to 5.42 percent in fiscal year 2018, and from 7.9 percent to 4.17 percent in fiscal year 2017. Refer to Note 6 for additional information related to PEPFF and SERF.

Pensions

Schedules of Employer's Contributions – Last 10 Years

Public Employee Police and Fire Fund (PEPFF)*

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2017	$ 979	$ 979		$ 6,046	16.20%
2016	943	943		5,818	16.20%
2015	885	885		5,781	15.30%
2014	804	804		5,255	15.30%

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

State Employees Retirement Fund (SERF)*

Year Ended June 30	Contractually Required Contribution (a)	Contributions in Relation to the Contractually Required Contribution (b)	Contribution Deficiency (Excess) (c) = a - b	University's Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (e) = b / d
2017	$ 23,582	$ 23,582		$ 428,771	5.50%
2016	22,974	22,974		417,703	5.50%
2015	22,565	22,565		451,306	5.00%
2014	20,518	20,518		410,364	5.00%

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

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
2018	$ 73	$ 73		$ 1,043	7.00%
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%

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
2018	$ 18	$ 18		$ 257	7.00%
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%

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
2018	$ 893	$ 893		$ 6,518	13.70%
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%

Additional information is provided in Note 6.

Supplemental Schedules

for the Years Ended June 30, 2018 and 2017

Deloitte & Touche LLP

Suite 2800
50 South Sixth Street
Minneapolis, MN
55402-1538
USA

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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as of and for the years ended June 30, 2018 and 2017, as a whole. The accompanying schedules of net position by campus, and of revenues, expenses, and changes in net position by campus as of and for the years ended June 30, 2018 and 2017, are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the University's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such schedules are fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Deloitte & Touche LLP

November 2, 2018

Statements of Net Position by Campus
June 30, 2018 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$ 192	$ 31,845	$ 3,415	$ 2,379	$ 425,629	$ 463,460
Short-term investments					263,676	263,676
Receivables, net	1,067	5,703	1,026	539	301,406	309,741
Inventories	148	2,131	63		17,047	19,389
Student loans receivable, net	100	1,837	171		7,971	10,079
Prepaid expenses	135	970	114	249	35,107	36,575
Other assets					560	560
Total current assets	1,642	42,486	4,789	3,167	1,051,396	1,103,480
Noncurrent assets						
Restricted cash and cash equivalents					25,408	25,408
Investments	4,033	116,983	5,056		1,771,825	1,897,897
Receivables, net			25	1,260	9,754	11,039
Student loan receivables, net	521	9,877	875		52,309	63,582
Prepaid expenses		2		12	14,991	15,005
Other assets					2,780	2,780
Capital assets, net	47,303	221,626	53,089	25,316	2,837,983	3,185,317
Total noncurrent assets	51,857	348,488	59,045	26,588	4,715,050	5,201,028
Total assets	53,499	390,974	63,834	29,755	5,766,446	6,304,508
Deferred Outflows of Resources	10,452	76,300	16,640	3,097	841,784	948,273
Liabilities						
Current liabilities						
Accounts payable	940	5,786	1,321	293	129,424	137,764
Accrued liabilities and other	1,653	10,932	2,410	525	300,176	315,696
Unearned income	909	4,108	115	19	59,738	64,889
Long-term debt					346,794	346,794
Total current liabilities	3,502	20,826	3,846	837	836,132	865,143
Noncurrent liabilities						
Accrued liabilities and other	13,520	103,058	20,967	4,259	1,108,596	1,250,400
Unearned income					44	44
Long-term debt					1,194,995	1,194,995
Total noncurrent liabilities	13,520	103,058	20,967	4,259	2,303,635	2,445,439
Total liabilities	17,022	123,884	24,813	5,096	3,139,767	3,310,582
Deferred Inflows of Resources	8,223	59,756	12,130	1,824	642,699	724,632
Net Position						
Unrestricted	(14,708)	(58,877)	(20,193)	(2,649)	441,985	345,558
Restricted						
Expendable	5,097	53,581	8,513	3,265	831,520	901,976
Nonexpendable	1,014	67,304	2,122		238,967	309,407
Net investment in capital assets	47,303	221,626	53,089	25,316	1,313,292	1,660,626
Total net position	$ 38,706	$ 283,634	$ 43,531	$ 25,932	$ 2,825,764	$ 3,217,567

Statements of Net Position by Campus
June 30, 2017 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$ 1,453	$ 25,983	$ 2,004	$ 1,970	$ 356,362	$ 387,772
Short-term investments					163,201	163,201
Receivables, net	413	7,472	866	434	260,933	270,118
Inventories	191	2,183	93		17,608	20,075
Student loans receivable, net	101	1,826	190		8,072	10,189
Prepaid expenses	66	752	32	5	35,023	35,878
Other assets					205	205
Total current assets	2,224	38,216	3,185	2,409	841,404	887,438
Noncurrent assets						
Restricted cash and cash equivalents					48,933	48,933
Investments	3,707	109,276	4,821		1,810,785	1,928,589
Receivables, net			30	1,748	10,091	11,869
Student loan receivables, net	510	9,707	973		51,463	62,653
Prepaid expenses		27		18	31,877	31,922
Other assets					1,280	1,280
Capital assets, net	49,112	197,297	57,766	27,790	2,809,094	3,141,059
Total noncurrent assets	53,329	316,307	63,590	29,556	4,763,523	5,226,305
Total assets	55,553	354,523	66,775	31,965	5,604,927	6,113,743
Deferred Outflows of Resources	15,125	106,268	22,594	4,077	1,184,476	1,332,540
Liabilities						
Current liabilities						
Accounts payable	723	5,757	1,184	433	131,492	139,589
Accrued liabilities and other	1,659	10,717	2,513	557	293,670	309,116
Unearned income	832	3,754	183	67	57,716	62,552
Long-term debt					333,509	333,509
Total current liabilities	3,214	20,228	3,880	1,057	816,387	844,766
Noncurrent liabilities						
Accrued liabilities and other	22,875	167,539	34,175	6,211	1,820,575	2,051,375
Unearned income					86	86
Long-term debt					1,131,467	1,131,467
Total noncurrent liabilities	22,875	167,539	34,175	6,211	2,952,128	3,182,928
Total liabilities	26,089	187,767	38,055	7,268	3,768,515	4,027,694
Deferred Inflows of Resources	2,010	15,252	2,882	519	153,602	174,265
Net Position						
Unrestricted	(12,264)	(55,982)	(19,183)	(2,603)	484,191	394,159
Restricted						
Expendable	4,720	49,242	7,745	3,068	752,622	817,397
Nonexpendable	1,012	67,215	2,104		243,554	313,885
Net investment in capital assets	49,111	197,297	57,766	27,790	1,386,919	1,718,883
Total net position	$ 42,579	$ 257,772	$ 48,432	$ 28,255	$ 2,867,286	$ 3,244,324

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

Year ended June 30, 2018 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 10,921	$ 92,733	$ 8,182	$ 6,682	$ 678,811	$ 797,329
Federal grants and contracts	68	6,130	1,138	17	446,145	453,498
State and other government grants	132	4,249	15		81,345	85,741
Nongovernmental grants and contracts	269	2,726	382	87	396,382	399,846
Student loan interest income	21	354	41		1,582	1,998
Sales and services of educational activities, net	405	5,034	291	53	145,554	151,337
Auxiliary enterprises, net	4,510	41,116	7,787	2,380	382,325	438,118
Other operating revenues					108	108
Total operating revenues	16,326	152,342	17,836	9,219	2,132,252	2,327,975
Expenses						
Operating expenses						
Educational and general						
Instruction	11,182	68,999	13,538	2,663	730,818	827,200
Research	263	21,209	830	627	745,208	768,137
Public service	247	6,854	1,342		276,808	285,251
Academic support	3,462	26,262	4,539	1,626	429,430	465,319
Student services	3,563	16,779	5,377	2,039	115,107	142,865
Institutional support	2,583	14,657	3,290	3,569	290,670	314,769
Operation and maintenance of plant	3,412	31,325	7,536	5	268,396	310,674
Scholarships and fellowships	412	2,308	1,473	2,392	58,004	64,589
Depreciation	2,339	11,444	4,085	5,839	198,090	221,797
Auxiliary enterprises	7,182	34,681	9,226	394	246,228	297,711
Other operating expenses, net	(9)	(184)	(33)		346	120
Total operating expenses	34,636	234,334	51,203	19,154	3,359,105	3,698,432
Operating Loss	(18,310)	(81,992)	(33,367)	(9,935)	(1,226,853)	(1,370,457)
Nonoperating Revenues (Expenses)						
Federal appropriations					21,690	21,690
State appropriations	11,637	48,209	22,307	8,258	593,850	684,261
Grants	4,660	24,382	6,222		168,754	204,018
Gifts	926	6,073	1,991	56	186,566	195,612
Investment income, net	684	11,847	862	98	152,735	166,226
Interest on capital asset-related debt					(46,157)	(46,157)
Other nonoperating revenues (expenses), net	9	(166)	212	1,787	5,464	7,306
Net nonoperating revenues	17,916	90,345	31,594	10,199	1,082,902	1,232,956
Income (Loss) Before Other Revenues	(394)	8,353	(1,773)	264	(143,951)	(137,501)
Capital appropriations					74,587	74,587
Capital grants and gifts		1,789			33,922	35,711
Additions to permanent endowments		68	9		369	446
Transfers	(144)	34,739	1,101	1,300	(36,996)	
Other internal charges	(3,335)	(19,087)	(4,238)	(3,887)	30,547	
Total other revenues (expenses)	(3,479)	17,509	(3,128)	(2,587)	102,429	110,744
Increase (Decrease) in Net Position	(3,873)	25,862	(4,901)	(2,323)	(41,522)	(26,757)
Net position at beginning of year	42,579	257,772	48,432	28,255	2,867,286	3,244,324
Net position at end of year	$ 38,706	$ 283,634	$ 43,531	$ 25,932	$ 2,825,764	$ 3,217,567

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

Year ended June 30, 2017 (in thousands)
(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 11,390	$ 91,637	$ 8,980	$ 5,910	$ 656,910	$ 774,827
Federal grants and contracts	95	7,004	927		431,384	439,410
State and other government grants	38	3,333	16		70,333	73,720
Nongovernmental grants and contracts	327	2,406	287	(2)	385,171	388,189
Student loan interest income	18	296	38		1,476	1,828
Sales and services of educational activities, net	369	5,247	188	31	141,318	147,153
Auxiliary enterprises, net	4,576	38,767	7,279	1,994	350,472	403,088
Other operating revenues					114	114
Total operating revenues	16,813	148,690	17,715	7,933	2,037,178	2,228,329
Expenses						
Operating expenses						
Educational and general						
Instruction	11,393	70,195	14,063	2,496	729,633	827,780
Research	132	21,988	758	614	739,918	763,410
Public service	272	7,450	1,468	6	295,072	304,268
Academic support	3,358	25,272	4,531	1,751	426,630	461,542
Student services	3,771	17,866	5,576	1,968	115,645	144,826
Institutional support	2,542	17,007	3,584	5,163	269,083	297,379
Operation and maintenance of plant	4,584	32,857	5,555		245,592	288,588
Scholarships and fellowships	342	2,272	1,314	1,971	56,161	62,060
Depreciation	2,124	11,354	3,302	3,006	188,859	208,645
Auxiliary enterprises	7,120	34,191	9,503	322	241,648	292,784
Other operating expenses, net	(15)	128	(44)		225	294
Total operating expenses	35,623	240,580	49,610	17,297	3,308,466	3,651,576
Operating Loss	(18,810)	(91,890)	(31,895)	(9,364)	(1,271,288)	(1,423,247)
Nonoperating Revenues (Expenses)						
Federal appropriations					17,481	17,481
State appropriations	10,915	44,218	20,828	8,284	566,504	650,749
Grants	4,066	22,196	5,935		170,847	203,044
Gifts	875	5,538	917	54	183,658	191,042
Investment income, net	616	5,659	702		140,403	147,380
Interest on capital asset-related debt					(51,107)	(51,107)
Other nonoperating revenues (expenses), net	(16)	(47)	577		6,824	7,338
Net nonoperating revenues	16,456	77,564	28,959	8,338	1,034,610	1,165,927
Income (Loss) Before Other Revenues	(2,354)	(14,326)	(2,936)	(1,026)	(236,678)	(257,320)
Capital appropriations					78,130	78,130
Capital grants and gifts	424	1,006			40,748	42,178
Additions to permanent endowments		321	10		645	976
Transfers	1,043	12,870	723	880	(15,516)	
Other internal charges	(3,078)	(18,681)	(4,209)	(3,816)	29,784	
Total other revenues (expenses)	(1,611)	(4,484)	(3,476)	(2,936)	133,791	121,284
Decrease in Net Position	(3,965)	(18,810)	(6,412)	(3,962)	(102,887)	(136,036)
Net position at beginning of year	46,544	276,582	54,844	32,217	2,970,173	3,380,360
Net position at end of year	$ 42,579	$ 257,772	$ 48,432	$ 28,255	$ 2,867,286	$ 3,244,324