



Finance Committee

December 2015

December 10, 2015

9:45 a.m. – 11:45 a.m.

West Committee Room, McNamara Alumni Center

FIN - DEC 2015

1. Purchasing at the University

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2. Annual Financial Report & GASB 68

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BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Purchasing at the University

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Michael Volna, Associate Vice President & Controller

PURPOSE & KEY POINTS

This agenda item will provide an overview of purchasing at the University. Topics include:

- Relevant University purchasing metrics and statistics.
- A review of the Board policy framework that guides University purchasing.
- Administrative policy requirements.
- Purchasing thresholds used for guiding oversight and approvals on purchasing transactions.
- A brief overview of purchasing initiatives that will better align purchasing with external requirements, policy goals, and best practices for operational excellence.

BACKGROUND INFORMATION

The University spent \$1.214 billion with external vendors in FY 2015 on goods, services, and construction. The University's purchasing policies and practices are designed to comply with a number of regulatory requirements and policy goals. Since the University's mission is so broad, and the organization is highly decentralized, the University's purchasing activities are guided by a risk-based framework that is intended to balance controls and oversight, with efficiency and effectiveness of operations.

Board of Regents Policy: *Purchasing* requires periodic Board review and approval of purchasing bid thresholds. This report is presented in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

Purchasing Activities

Michael Volna

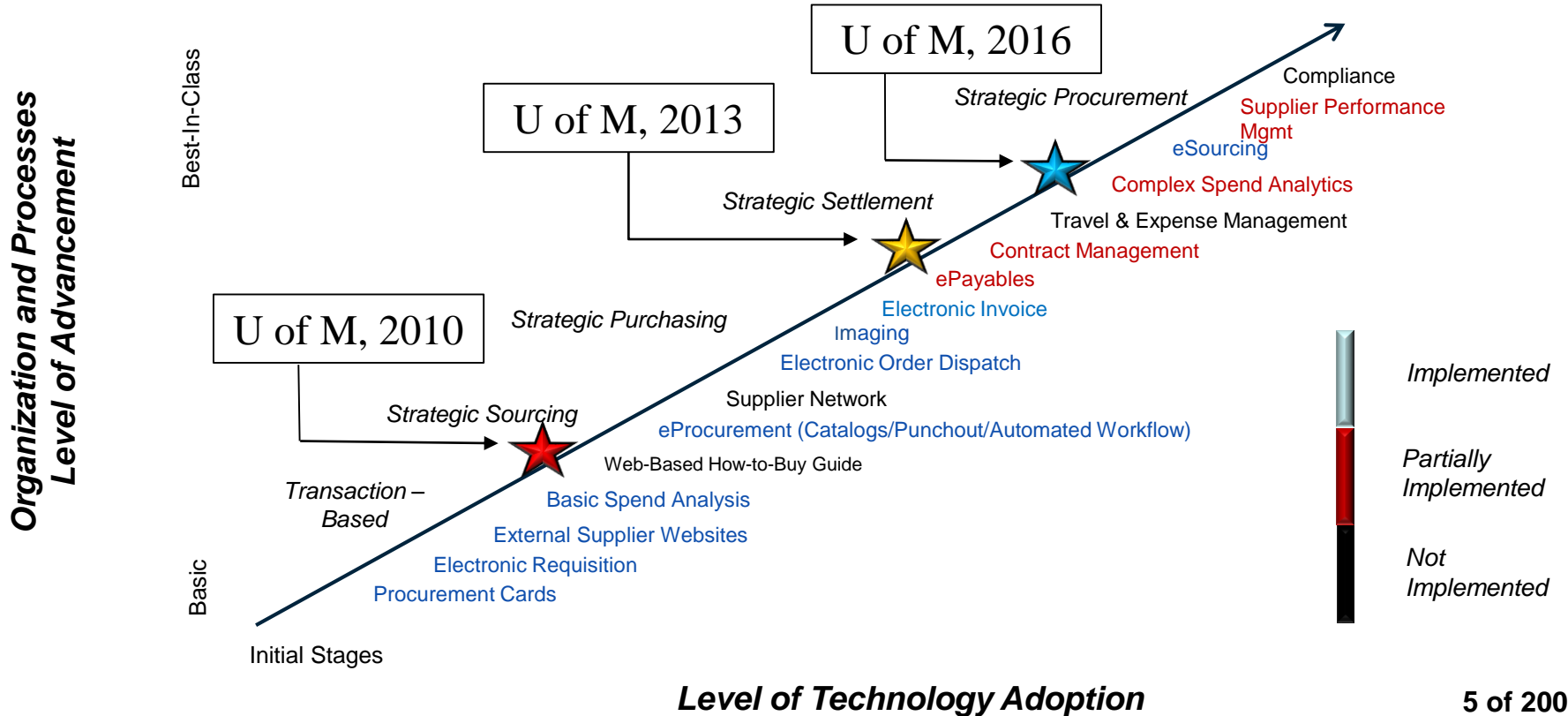
Associate Vice President, Finance & Controller



UNIVERSITY OF MINNESOTA

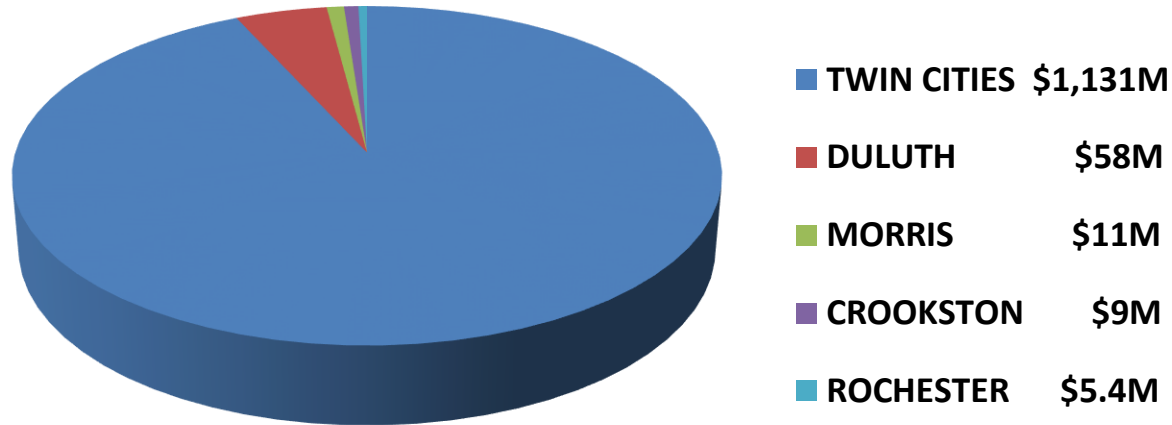
Driven to DiscoverSM

Procurement Technology Roadmap



FY 2015 Purchasing Data

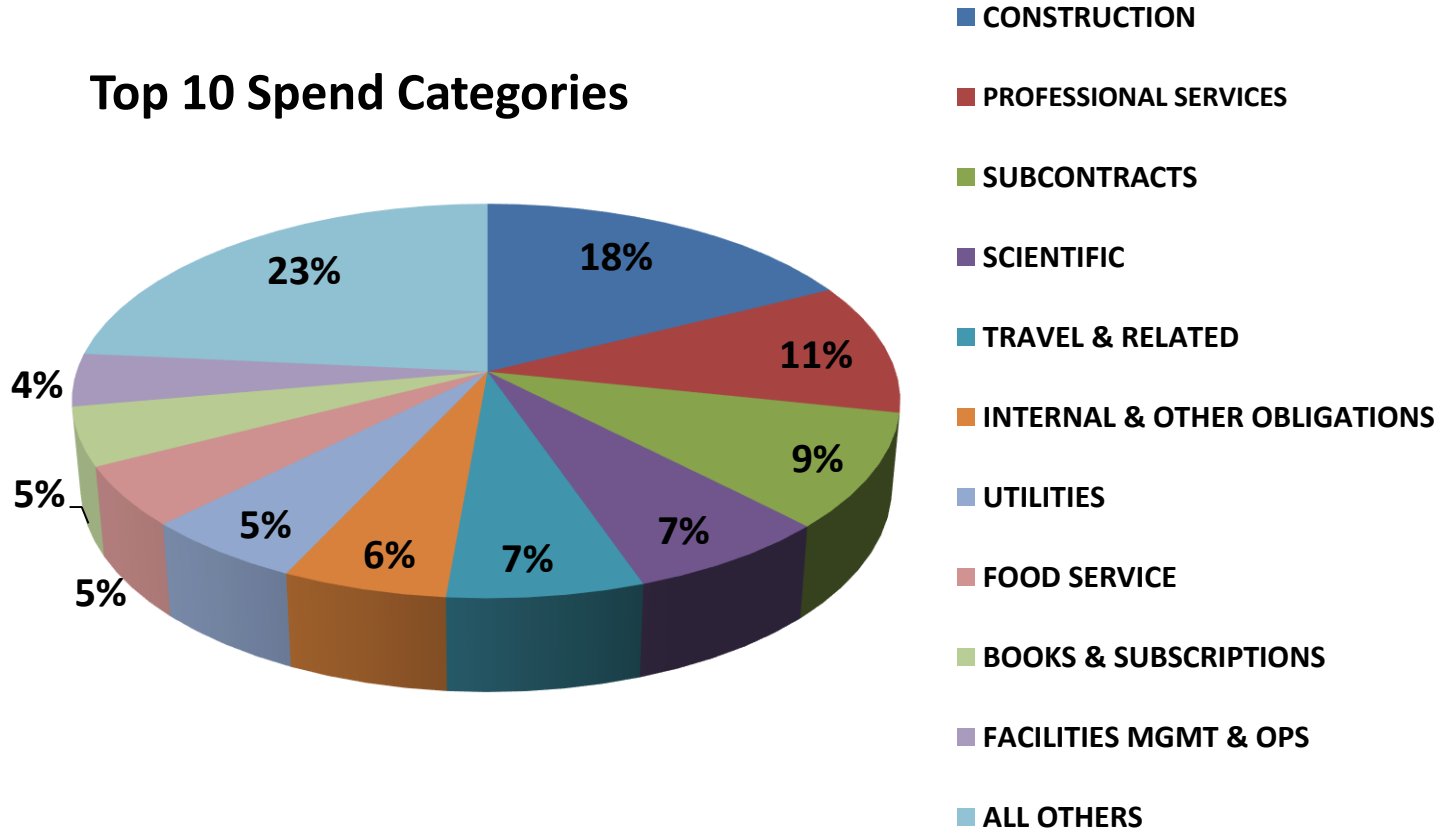
External Spend by Campus



FY 15 Total Spend \$1,214 M

FY 2015 Purchasing Data

Top 10 Spend Categories



FY 15 Purchasing Data

Purchase Activity Over \$50,000	\$	#
Goods & Services	\$ 221,817,282	899
Construction	\$ 383,364,454	183
Selected Expenditure activity	\$	#
U Wide contract expenditures	\$ 51,947,219	80,455
U Market expenditures	\$ 38,010,776	126,236
Targeted Supplier Spend	\$ 60,103,508	N/A
eSourcing tool (RFP/RFB Activity)	\$ 79,048,010	185
Overall Travel Spend	\$ 62,067,135	N/A
Procurement Card Spend	\$ 63,255,067	286,617
Regents Approval Activity	\$ 116,881,335	29

Relevant Board of Regents Policies

- *Purchasing*
- *Targeted Business, Urban Community Economic Development, and Small Business Programs*
- *Reservation and Delegation of Authority*
- *Board Operations and Agenda Guidelines*

Relevant Administrative Policies

- *Purchasing Goods and Services*
- *Purchasing a Professional Service*
- *Using the University Procurement Card*
- *Traveling on University Business*
- *Using the University Corporate Travel Card*

Relevant Thresholds

	Current Thresholds
Micro Purchases	Up to \$10,000
Small dollar purchases	\$10,000-49,999.99
Competitive bids required	\$ 50,000 +
Targeted Group Business requirements	\$ 500,000 *
Board approval (goods & services)	\$1,000,000 +

* Effective 1/1/16, TGB requirements will be aligned with bid threshold @ \$50,000

Supplier Diversity Initiatives

- Reduce TGB threshold from \$500,000 to \$50,000 effective 1/1/16
 - ~ 4X RFPs will be subject to TGB evaluation (25 → 113, FY 2015 activity)
- Strengthen monitoring of vendors' diversity commitments post-contract

Supplier Diversity Initiatives

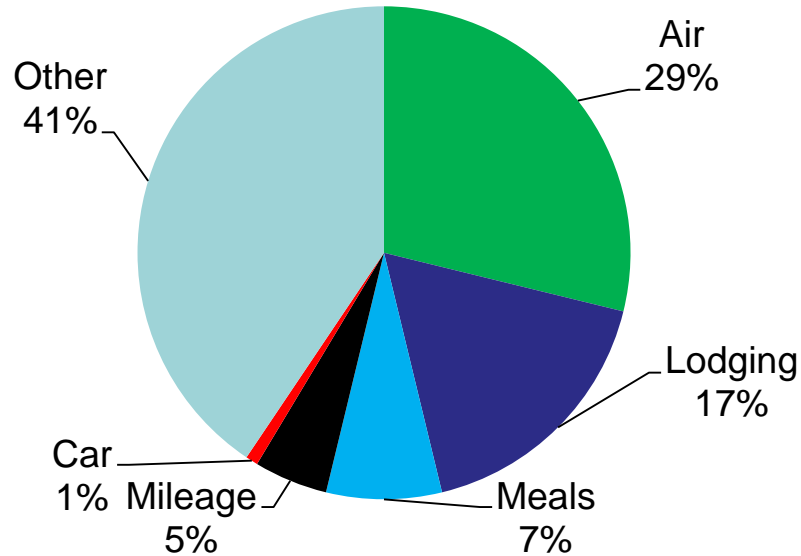
- Develop plans to increase TGB spend on small dollar purchases (< \$50,000)
 - Increase TGB purchasing opportunities through U Market
 - Communication & education campaign for University departments

Travel Program Initiative

- Implement new technology to fully automate and integrate travel “book to reimbursement” process
- Drive broader adoption of contract travel agencies
- Convert current “personal liability” travel card to corporate liability travel card

Travel Spend FY 2015

\$62.1 Million



Savings / Benefits

- Direct travel spend to lowest cost vendors
- Additional rebate potential via new travel card
- Potential process improvements for travelers and back office processing
- Better tracking of spend data
- Better tracking of international travelers (duty of care)

Timeline

- RFP issued in August, 2015
- Evaluation of responses October - November, 2015
- Usability Testing January, 2016
- Final Decision and Award will be made in February, 2016
- Implementation to begin March, 2016
- Roll out to University Fall/Winter, 2016

Policy Question

- Is the Board comfortable with the current threshold for Board approval of goods and services purchases?
 - Current threshold = \$1,000,000
 - FY 15: Board approved 29 purchases @ \$1,000,000+, valued at \$116,881,335



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BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Annual Financial Report & GASB 68

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Michael Volna, Associate Vice President & Controller

PURPOSE & KEY POINTS

The annual financial report presents the financial position and results of operations for the University of Minnesota for FY 2015, with comparative data for FY 2014. The presentation will cover:

- Highlights of assets, liabilities, and net position.
- A discussion of revenues and expenses for FY 2015 with comparative results for FY 2014.
- An overview of the statement of cash flows.
- A summary of component unit information.
- Information about the impact of GASB 68.

BACKGROUND INFORMATION

This report is prepared annually and presented to the Finance Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

University of Minnesota

*Consolidated Financial Statements for the Years
Ended June 30, 2015 and 2014, Independent
Auditors' Report, and Management's Discussion
and Analysis*

Financial Report

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Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

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, 2015 and 2014, the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2015 and 2014, 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, 2015 and 2014, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015 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 10, 2015

Management's Discussion and Analysis

(Unaudited)

Introduction

This discussion and analysis of the University of Minnesota's (the University) consolidated financial statements provides an overview of the consolidated financial position and activities of the University for the years ended June 30, 2015, 2014, and 2013. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

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

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

The University's enrollment for all five campuses is approximately 68,000 students, with the Twin Cities campus having the largest student enrollment of approximately 52,000 students. The University is among the top nine public research institutions nationally. The University is the state's major research institution with expenditures of approximately \$700.2 million, \$679.7 million, and \$656.6 million in fiscal years 2015, 2014, and 2013, respectively, for research under various programs funded by governmental and private sources.

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

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

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

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

Mission

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

- **Research and Discovery**—To generate and preserve knowledge, understanding, and creativity by conducting high quality research, scholarship, and artistic activities that benefit students, scholars, and communities across the state, the nation, and the world.
- **Teaching and Learning**—To share that knowledge, understanding, and creativity by providing a broad range of educational programs in a strong and diverse community of learners and teachers, and to prepare graduate, professional, and undergraduate students, as well as non-degree-seeking students

interested in continuing education and lifelong learning, for active roles in a multiracial and multicultural world.

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

Operations

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

- provides instruction for approximately 68,000 students;
- graduates approximately 15,800 students, 40 percent with graduate or first professional degrees on the Twin Cities campus;
- provides over 300 student exchange programs, ranking third nationally with learning abroad programs;
- conducts research sponsored by the National Institutes of Health, the National Science Foundation, other federal, state, and governmental agencies, and numerous private companies and foundations;
- reaches out to more than one million Minnesotans through various outreach and public service activities.

Consolidated Financial Statements

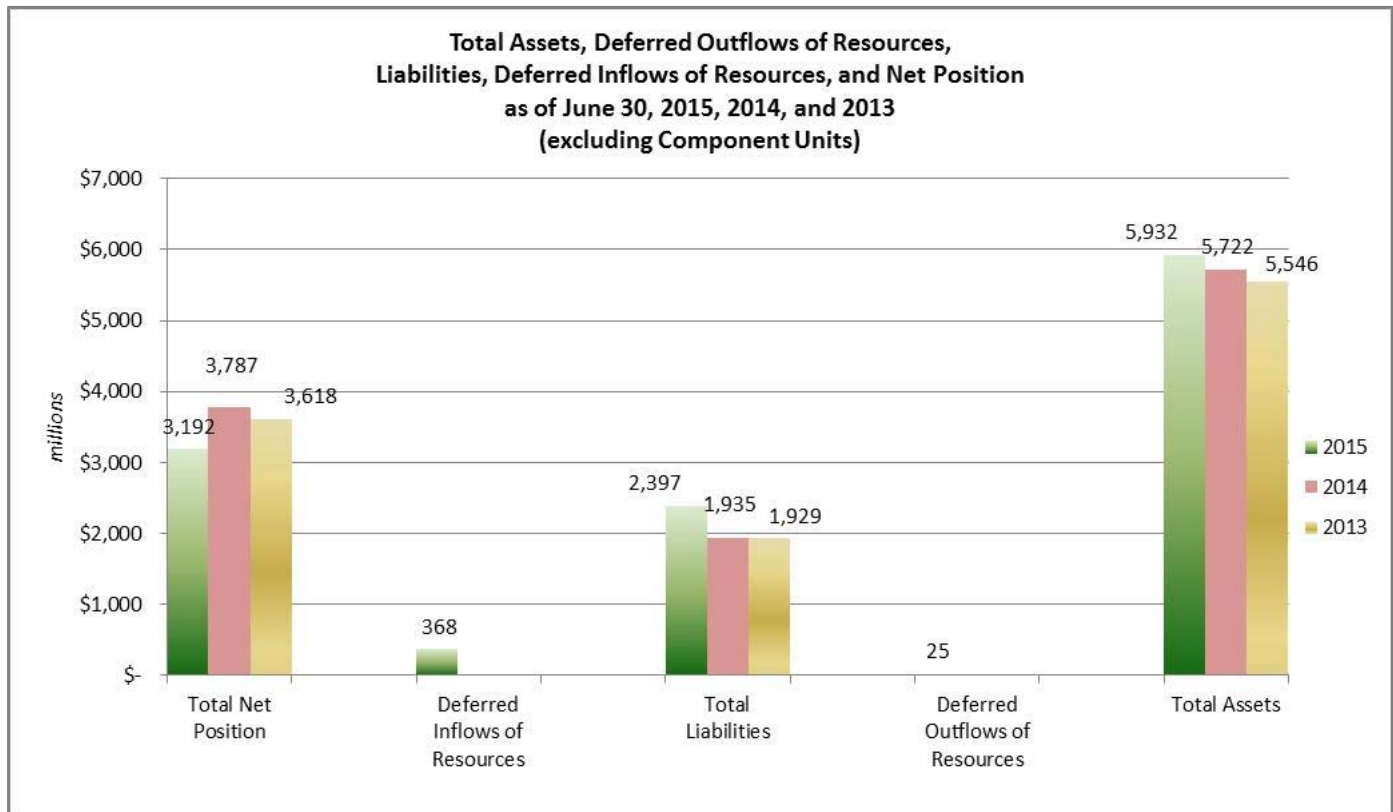
The consolidated financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB). The consolidated financial statements required under these reporting standards include the Consolidated Statements of Net Position;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

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

Financial Highlights

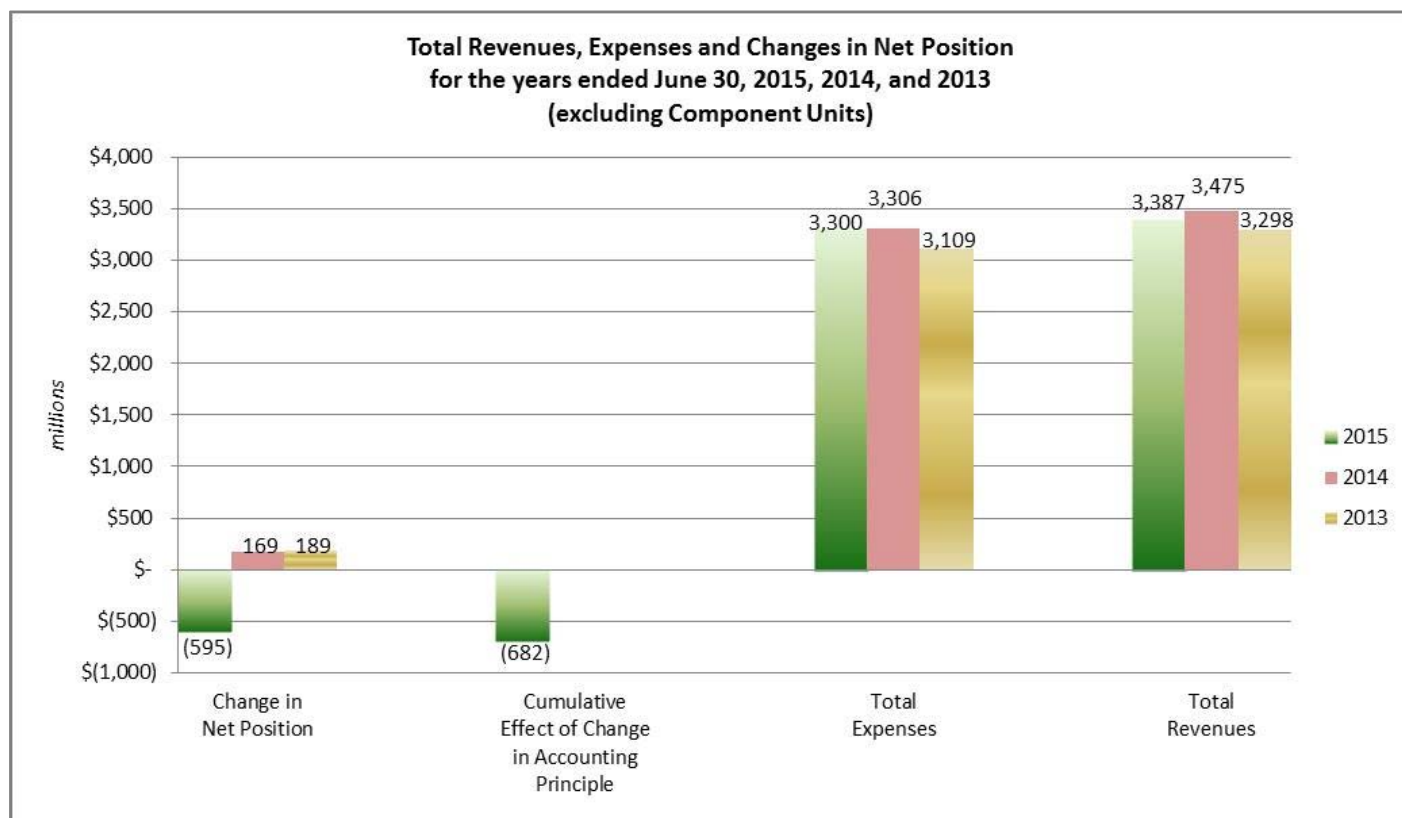
The University's financial position remains strong with assets of \$5.9 billion, an increase of \$0.2 billion from fiscal year 2014. Liabilities increased to \$2.4 billion compared to \$1.9 billion for fiscal year 2014. The University's net position, the difference between total assets, deferred outflows of resources, total liabilities, and deferred inflows of resources, decreased year over year to \$3.2 billion as of June 30, 2015 compared to \$3.8 billion as of June 30, 2014, primarily because of the impact from adopting GASB 68 and 71.

The following chart summarizes total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2015, 2014 and 2013, 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 \$595.1 million in fiscal year 2015 compared to an increase of \$169.3 million in fiscal year 2014. With the implementation of GASB 68 and 71, the University recorded a cumulative effect of a change in accounting principle of \$682.5 million. A cumulative effect of a change in accounting principle is the cumulative impact to the consolidated financial statements related to prior fiscal years.

The following chart summarizes total revenues, expenses and the changes in net position for the years ended June 30, 2015, 2014 and 2013, respectively:



The University experienced a decrease in total revenue of \$87.7 million or 2.5 percent predominately due to decreases in investment income. Operating revenues increased \$62.3 million or 3.0 percent. Total expenses decreased \$5.9 million or 0.2 percent primarily due to decreases in operating expenses. The University continues to focus on instruction, research and public service while continuing to emphasize controlling operating expenses.

Consolidated Statements of Net Position

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

A comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2015, 2014 and 2013 is summarized in the table below:

Condensed Statements of Net Position
(in thousands)

	2015	2014	2013
Assets			
Current assets	\$ 694,115	\$ 589,977	\$ 629,376
Noncurrent assets, excluding capital assets	2,281,179	2,231,939	2,040,048
Capital assets, net	2,957,133	2,900,494	2,876,914
Total assets	5,932,427	5,722,410	5,546,338
Deferred outflows of resources	25,100		
Liabilities			
Current liabilities, excluding long-term debt	473,587	444,319	443,100
Noncurrent liabilities, excluding long-term debt	502,318	208,518	184,726
Long-term debt	1,421,428	1,282,507	1,300,730
Total liabilities	2,397,333	1,935,344	1,928,556
Deferred inflows of resources	368,220		
Net position			
Unrestricted	290,546	812,356	820,146
Restricted—expendable	927,440	1,004,191	865,819
Restricted—nonexpendable	297,469	289,366	277,601
Net investment in capital assets	1,676,519	1,681,153	1,654,216
Total net position	\$ 3,191,974	\$ 3,787,066	\$ 3,617,782

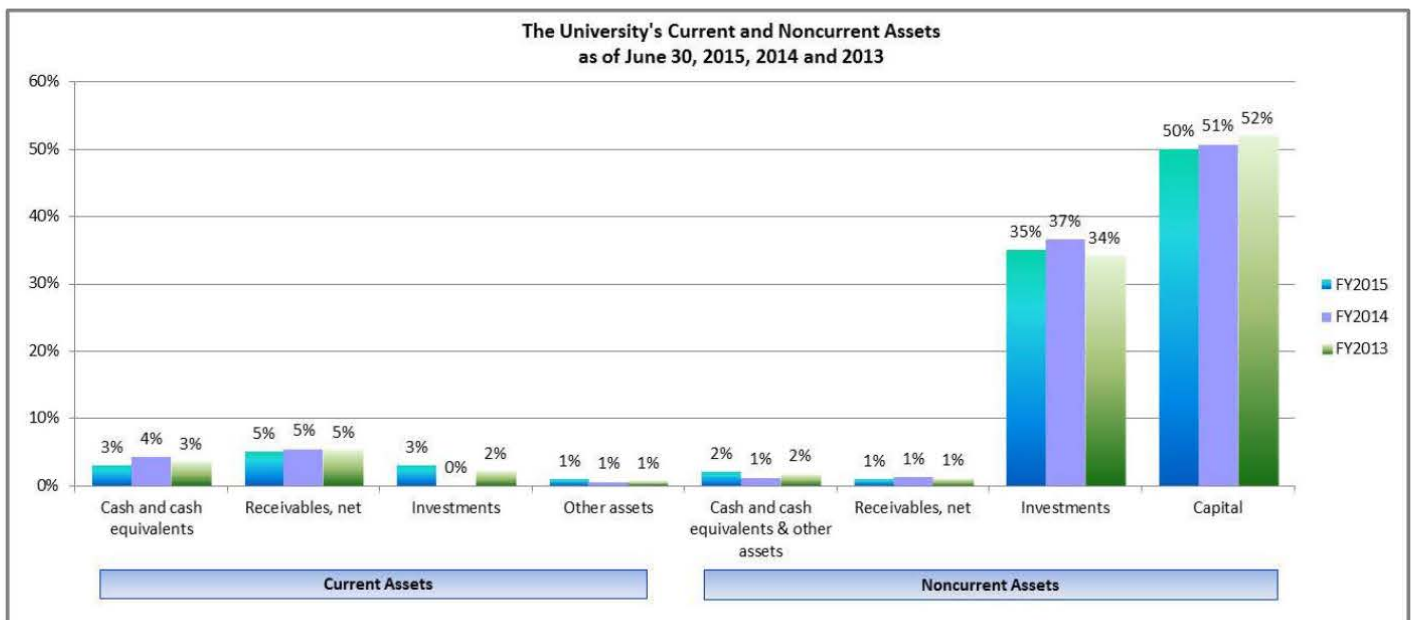
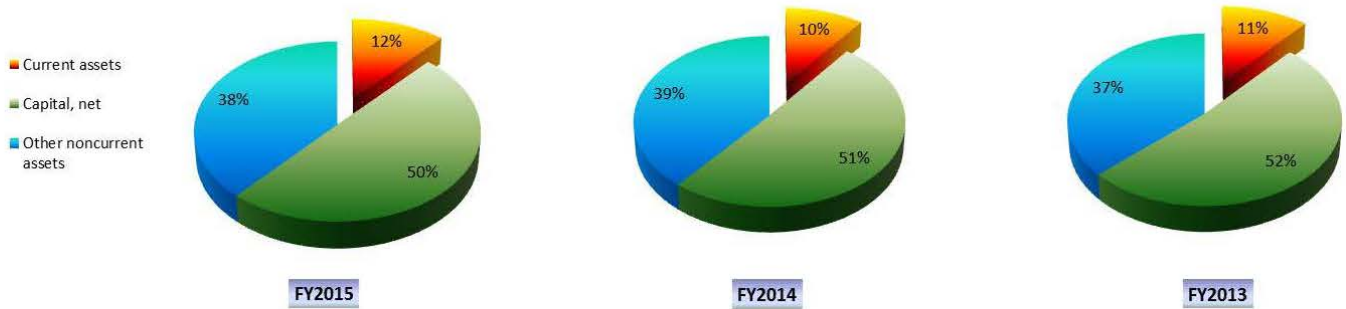
Assets

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 Total Assets as of June 30, 2015, 2014 and 2013



The University's current and noncurrent assets as of June 30, 2015, 2014 and 2013

(in thousands)

	2015	2014	2013	Increase (Decrease)			
				From 2014 to 2015		From 2013 to 2014	
				Amount	Percent	Amount	Percent
Current assets							
Cash and cash equivalents	\$ 183,451	\$ 243,049	\$ 194,006	\$ (59,598)	(24.5%)	\$ 49,043	25.3%
Receivables, net	285,336	312,323	310,878	(26,987)	(8.6%)	1,445	0.5%
Investments	185,724	676	89,534	185,048	27374.0%	(88,858)	(99.2%)
Other assets	39,604	33,929	34,958	5,675	16.7%	(1,029)	(2.9%)
Total current assets	694,115	589,977	629,376	104,138	17.7%	(39,399)	(6.3%)
Noncurrent assets							
Capital	2,957,133	2,900,494	2,876,914	56,639	2.0%	23,580	0.8%
Other noncurrent assets							
Cash and cash equivalents & other assets	150,656	68,522	92,656	82,134	119.9%	(24,134)	(26.0%)
Receivables, net	72,444	71,699	58,236	745	1.0%	13,463	23.1%
Investments	2,058,079	2,091,718	1,889,156	(33,639)	(1.6%)	202,562	10.7%
Total other noncurrent assets	2,281,179	2,231,939	2,040,048	49,240	2.2%	191,891	9.4%
Total assets	\$ 5,932,427	\$ 5,722,410	\$ 5,546,338	\$ 210,017	3.7%	\$ 176,072	3.2%

As of June 30, 2015, total assets increased \$210.0 million primarily due to increases in cash and cash equivalents, investments and capital. Investments increased \$151.4 million primarily due to increases in both the Consolidated Endowment Fund fair market value and in Temporary Investment Pool investment activity. Cash and cash equivalents increased \$22.5 million. Noncurrent cash and cash equivalents consist of unspent bond proceeds of \$148.3 million and \$66.9 million in fiscal year 2015 and 2014, respectively. Capital assets, net of accumulated depreciation, increased \$56.6 million due to increased spending on construction projects, specifically the Ambulatory Care Clinic, the Microbiology Research Facility and the Combined Heat and Power Plant. Refer to Footnote 4 for additional information related to capital assets.

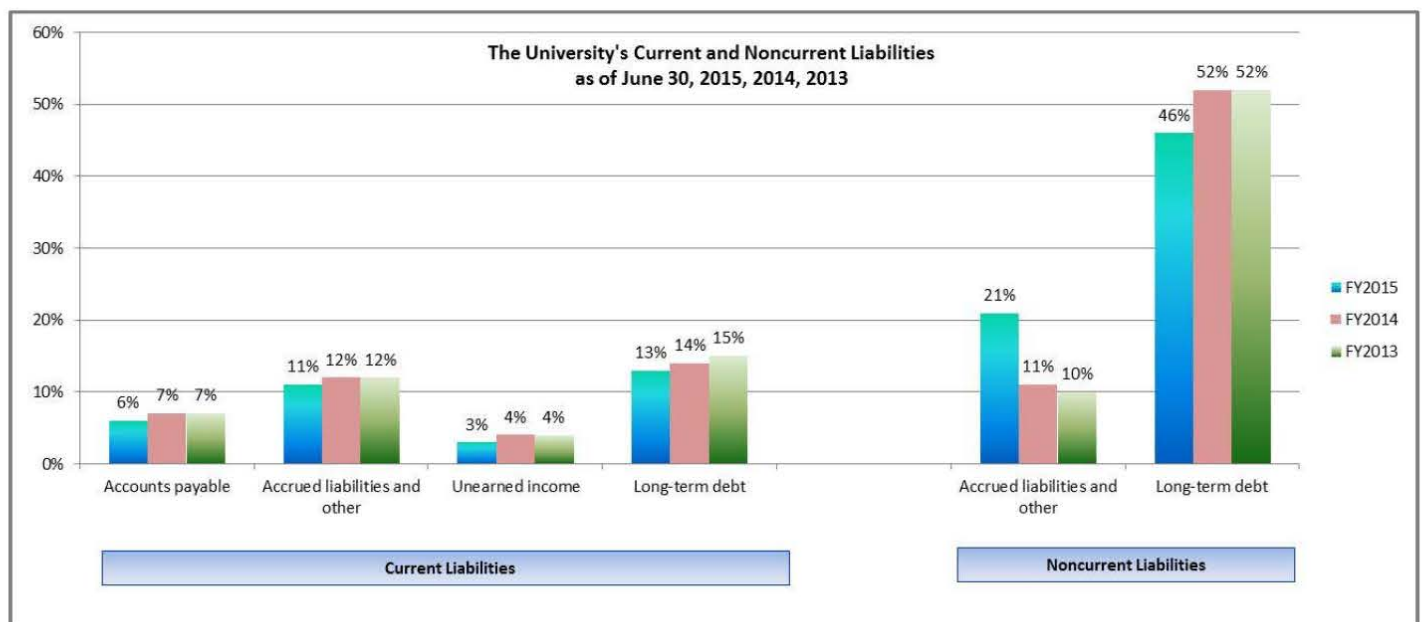
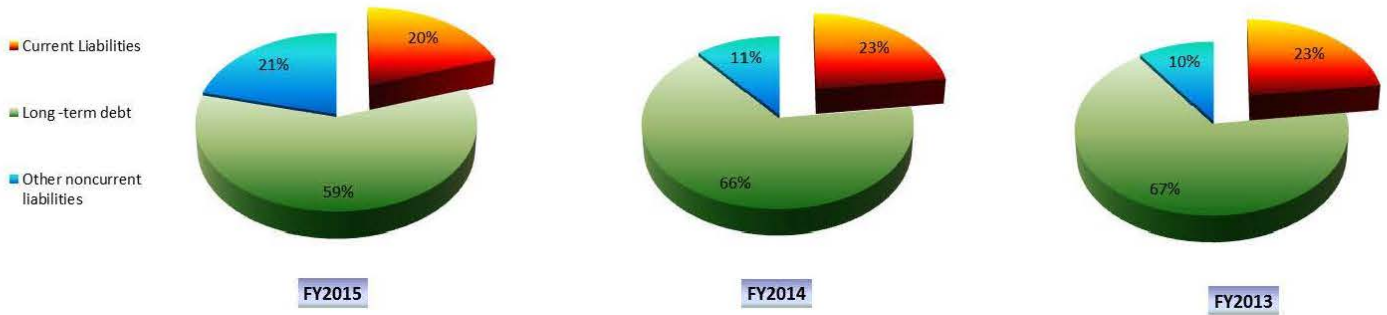
Liabilities

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

The University's noncurrent liabilities consist primarily of accrued liabilities, capital obligations, notes payable, leases and bonds payable (long-term debt). The University's long-term debt represents 59 percent of total liabilities or \$1,421.4 million as of June 30, 2015 compared to 66 percent or \$1,282.5 million as of June 30, 2014.

The following charts illustrate the composition of total liabilities:

The University's Total Liabilities as of June 30, 2015, 2014 and 2013



The University's current and noncurrent liabilities as of June 30, 2015, 2014 and 2013
(in thousands)

	2015	2014	2013	Increase (Decrease)			
				From 2014 to 2015		From 2013 to 2014	
				Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	\$ 140,114	\$ 131,403	\$ 134,954	\$ 8,711	6.6%	\$ (3,551)	(2.6%)
Accrued liabilities and other	259,912	244,389	239,401	15,523	6.4%	4,988	2.1%
Unearned income	73,561	68,527	68,745	5,034	7.3%	(218)	(0.3%)
Long-term debt	309,805	272,026	285,416	37,779	13.9%	(13,390)	(4.7%)
Total current liabilities	783,392	716,345	728,516	67,047	9.4%	(12,171)	(1.7%)
Noncurrent liabilities							
Accrued liabilities and other	502,264	205,360	184,564	296,904	144.6%	20,796	11.3%
Unearned income *	54	3,158	162	(3,104)	(98.3%)	2,996	1849.4%
Long-term debt	1,111,623	1,010,481	1,015,314	101,142	10.0%	(4,833)	(0.5%)
Total noncurrent liabilities	1,613,941	1,218,999	1,200,040	394,942	32.4%	18,959	1.6%
Total Liabilities	\$ 2,397,333	\$ 1,935,344	\$ 1,928,556	\$ 461,989	23.9%	\$ 6,788	0.4%

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

As of June 30, 2015, total liabilities increased \$462.0 million primarily due to increases in accrued liabilities and long-term debt. Accrued liabilities increased \$312.4 million primarily due to the recording of the University's net pension liability of \$266.5 million as a result of GASB 68 and 71 implementation and the gradual amortization of the University's full liability related to Other Post-Employment Benefits (OPEB). The University recorded an increase in the OPEB liability of \$18.9 million in fiscal years 2015 and 2014. As of June 30, 2015, the cumulative OPEB liability of \$120.2 million was recorded as a current liability of \$4.4 million and a noncurrent liability of \$115.8 million.

Long-term debt increased \$138.9 million or 10.8 percent. The University issued General Obligation Bonds Series 2014B, with a par amount of \$145.8 million and Taxable Commercial Paper Series E in the amount of \$51.6 million in fiscal year 2015. Additions from the issuance were offset by normal amortization of the bonds, premiums and discounts. Refer to Footnote 5 for additional information related to long-term debt.

Deferred Outflows and Inflows of Resources

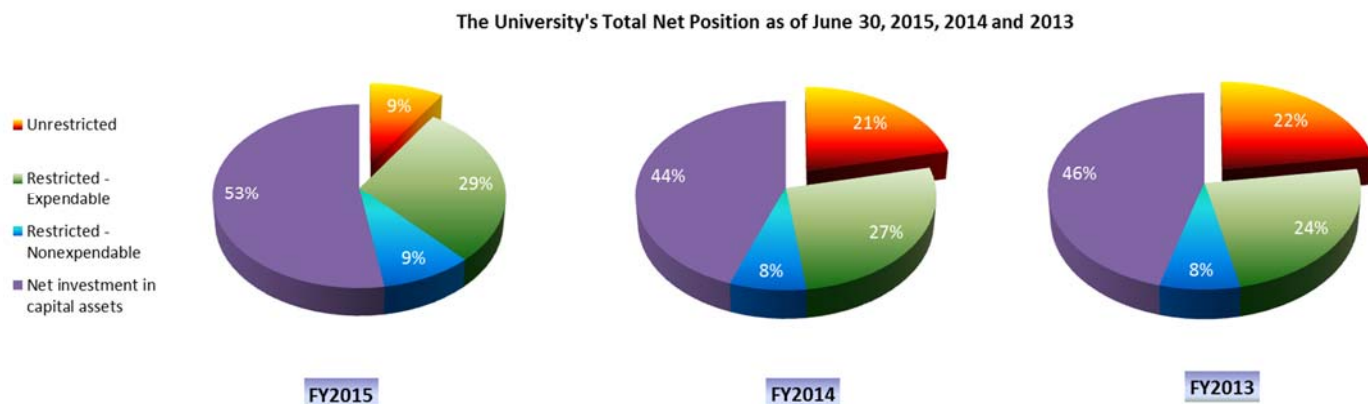
In fiscal year 2014, the University implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. GASB 65 specifies certain items that were previously reported as assets and liabilities must be reclassified and reported as deferred outflows and inflows of resources. Deferred outflows of resources are items previously reported as assets that result in the outflow of net position in the current reporting period for activities applicable to a future reporting period. Likewise, deferred inflows of resources are items previously reported as liabilities that result in the inflow of net position in the current reporting period for activities applicable to a future reporting period. As of June 30, 2015, the deferred outflows of resources and deferred inflows of resources increased \$25.1 million and \$368.2 million, respectively.

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, 2015, 2014 and 2013
(in thousands)

	2015	2014	2013	Increase (Decrease)			
				From 2014 to 2015		From 2013 to 2014	
				Amount	Percent	Amount	Percent
Unrestricted	\$ 290,546	\$ 812,356	\$ 820,146	\$ (521,810)	(64.2%)	\$ (7,790)	(0.9%)
Restricted:							
Expendable	927,440	1,004,191	865,819	(76,751)	(7.6%)	138,372	16.0%
Nonexpendable	297,469	289,366	277,601	8,103	2.8%	11,765	4.2%
Net investment in capital assets	1,676,519	1,681,153	1,654,216	(4,634)	(0.3%)	26,937	1.6%
Total net position	\$ 3,191,974	\$ 3,787,066	\$ 3,617,782	\$ (595,092)	(15.7%)	\$ 169,284	4.7%

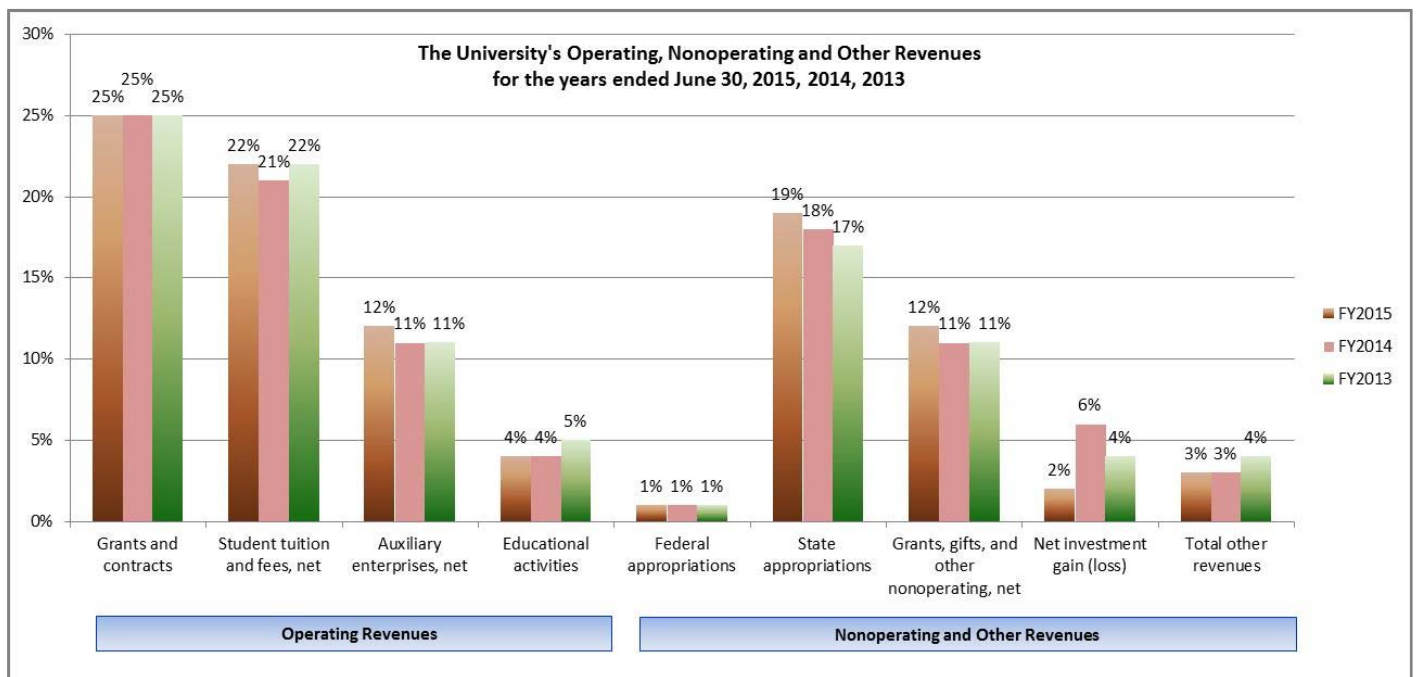
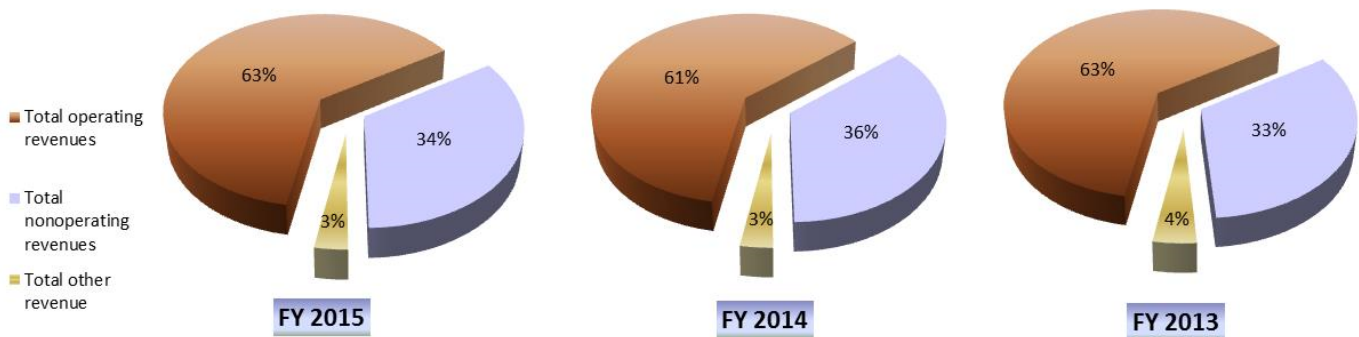
The University's unrestricted net position decreased \$521.8 million in fiscal year 2015 due to the implementation of GASB 68 and 71 which was partially offset by fiscal year 2015 activity. The University's restricted expendable net position decreased \$76.8 million in fiscal year 2015 compared to an increase of

\$138.4 million in fiscal year 2014 due to changes in market values related to endowments and the recording of the University's net pension liability.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position present the institution's operating, nonoperating, and capital and endowment related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. Operating revenues are those generated by the University's principal ongoing operations such as tuition, sponsored research grants and contracts, and sales and services provided by the University's educational and self-supporting auxiliary units. State appropriations are reported as nonoperating revenues, as are gifts and other revenues for which the University does not give equal value in exchange for the resources received. Operating revenues were 63 percent and 61 percent of total revenues for fiscal year 2015 and 2014, respectively.

The University's Revenues for the years ended June 30, 2015, 2014, and 2013



The University's Operating, Nonoperating and Other Revenue for the years ended June 30, 2015, 2014 and 2013
(in thousands)

	2015	2014	2013	Increase (Decrease)			
				From 2014 to 2015		From 2013 to 2014	
				Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	\$ 872,420	\$ 836,819	\$ 836,423	\$ 35,601	4.3%	\$ 396	0.0%
Student tuition and fees, net	740,540	732,821	720,510	7,719	1.1%	12,311	1.7%
Auxiliary enterprises, net	399,256	376,449	365,459	22,807	6.1%	10,990	3.0%
Educational activities	143,339	147,134	157,840	(3,795)	(2.6%)	(10,706)	(6.8%)
Other operating revenue *	99	137	135	(38)	(27.7%)	2	1.5%
Total operating revenues	2,155,654	2,093,360	2,080,367	62,294	3.0%	12,993	0.6%
Nonoperating revenues							
Federal appropriations	18,192	19,072	22,039	(880)	(4.6%)	(2,967)	(13.5%)
State appropriations	642,069	614,791	575,491	27,278	4.4%	39,300	6.8%
Grants, gifts, and other nonoperating, net	395,208	396,147	357,741	(939)	(0.2%)	38,406	10.7%
Net investment gain	82,078	234,407	122,797	(152,329)	(65.0%)	111,610	90.9%
Total nonoperating revenues	1,137,547	1,264,417	1,078,068	(126,870)	(10.0%)	186,349	17.3%
Total other revenues	94,298	117,438	139,655	(23,140)	(19.7%)	(22,217)	(15.9%)
Total revenues (noncapital)	\$ 3,387,499	\$ 3,475,215	\$ 3,298,090	\$ (87,716)	(2.5%)	\$ 177,125	5.4%

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

Total revenues decreased in fiscal year 2015 by \$87.7 million primarily due to decreases in net investment gains partially offset by increases in State appropriations. Operating revenues increased \$62.3 million or 3.0 percent mainly due to increases in grants and contracts, and auxiliary enterprises. Revenues from sales and services of educational activities decreased \$3.8 million due to timing of normal business activity.

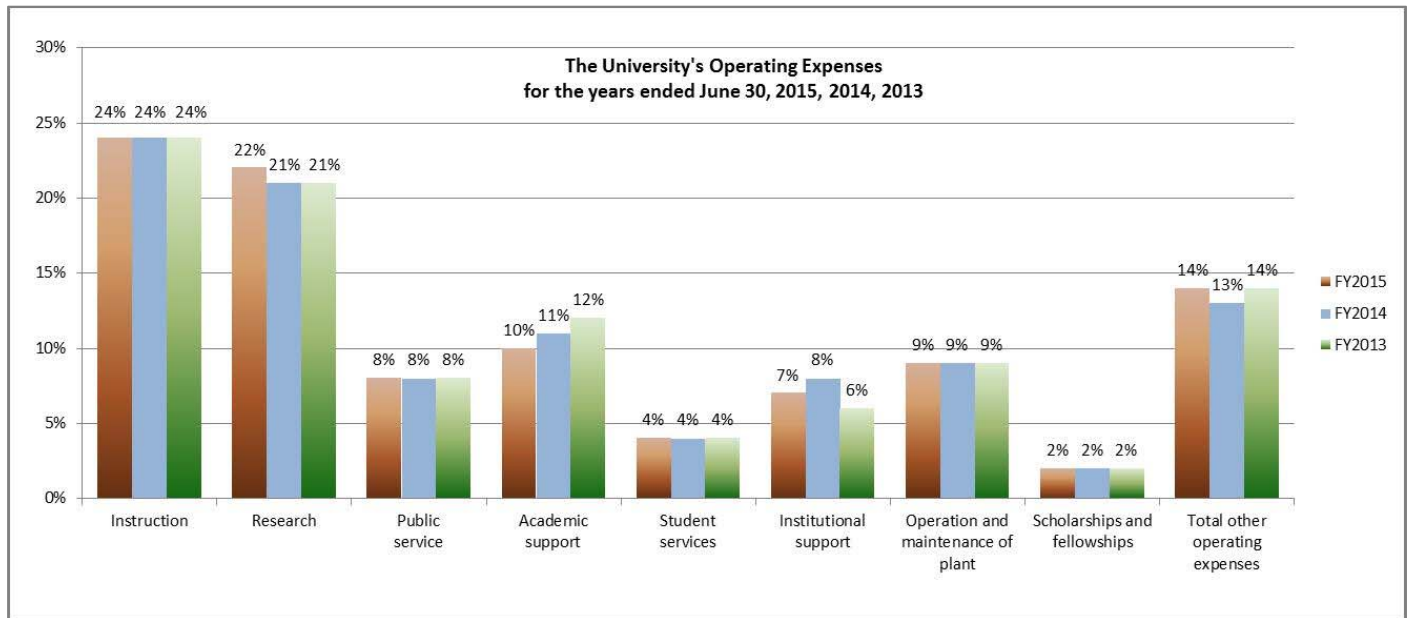
State appropriations increased \$27.3 million compared to fiscal year 2014 increasing to \$642.1 million in fiscal year 2015 from \$614.8 million in fiscal year 2014. New State appropriations for fiscal year 2015 included appropriations for the Regenerative Medicine project, tuition relief and the Terrestrial Invasive Species project.

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

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of \$182.3 million, \$197.2 million, and \$159.2 million, and grants and gifts for capital purposes of \$19.2 million, \$22.9 million, and \$28.8 million in fiscal years 2015, 2014, and 2013, respectively.

For the year ended June 30, 2015, other revenues, which consist of capital appropriations, and capital endowments gifts and grants decreased \$23.1 million or 19.7 percent and \$22.2 million or 15.9 percent in fiscal years 2015 and 2014, respectively.

Total Operating Expenses



The University's Operating Expenses by Functional Category for the years ended June 30, 2015, 2014 and 2013 (in thousands)

	2015	2014	2013	Increase (Decrease)			
				From 2014 to 2015		From 2013 to 2014	
				Amount	Percent	Amount	Percent
Education and general							
Instruction	\$770,325	\$769,479	\$737,596	\$846	0.1%	\$31,883	4.3%
Research	700,208	679,718	656,551	20,490	3.0%	23,167	3.5%
Public service	248,451	253,141	249,257	(4,690)	(1.9%)	3,884	1.6%
Academic support	366,992	394,927	367,265	(27,935)	(7.1%)	27,662	7.5%
Student services	116,016	116,575	110,230	(559)	(0.5%)	6,345	5.8%
Institutional support	243,153	256,641	197,319	(13,488)	(5.3%)	59,322	30.1%
Operation and maintenance of plant	276,783	285,938	266,994	(9,155)	(3.2%)	18,944	7.1%
Scholarships and fellowships	57,879	54,519	50,435	3,360	6.2%	4,084	8.1%
Depreciation	218,565	192,705	193,139	25,860	13.4%	(434)	(0.2%)
Total education and general	2,998,372	3,003,643	2,828,786	(5,271)	(0.2%)	174,857	6.2%
Other operating expenses							
Auxiliary enterprises	256,271	256,068	235,411	203	0.1%	20,657	8.8%
Other operating expenses, net	93	583	19	(490)	(84.0%)	564	2968.4%
Total other operating expenses	256,364	256,651	235,430	(287)	(0.1%)	21,221	9.0%
Total operating expenses	\$3,254,736	\$3,260,294	\$3,064,216	(5,558)	(0.2%)	196,078	6.4%

Total operating expenses decreased \$5.6 million or 0.2 percent in fiscal year 2015 compared to an increase of \$196.1 million or 6.4 percent in fiscal year 2014. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at \$2.0 billion or 62.2 percent, \$2.1 billion or 63.3 percent and \$2.0 billion or 63.8 percent of operating expenses in fiscal years 2015, 2014 and 2013, respectively. Compensation related expenditures decreased \$40.4 million or 2.0 percent in fiscal year 2015 and increased \$108.7 million or 5.6 percent in fiscal year 2014. Decreases in compensation related expenditures in fiscal year 2015 are primarily due to the implementation of GASB 68 which resulted in reductions in fringe related expenses being recorded in deferred inflows of resources. These decreases were partially offset by increases due to the University's salary increase of 2.5 percent, in addition to increases in compensation related liabilities.

Consolidated Statements of Cash Flows

The University's cash flows for the years ended June 30, 2015, 2014 and 2013

(in thousands)

	2015	2014	2013	Increase (Decrease)			
				From 2014 to 2015		From 2013 to 2014	
				Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	\$ (891,340)	\$ (924,284)	\$ (781,600)	\$ 32,944	3.6%	\$ (142,684)	(18.3%)
Noncapital financing activities	1,079,210	1,038,968	925,488	40,242	3.9%	113,480	12.3%
Capital and related financing activities	(93,844)	(204,533)	(223,374)	110,689	54.1%	18,841	8.4%
Investing activities	(72,236)	118,775	4,977	(191,011)	(160.8%)	113,798	2286.5%
Net increase (decrease) in cash	21,790	28,926	(74,509)	(7,136)	(24.7%)	103,435	138.8%
Cash, beginning of year	309,937	281,011	355,520	28,926	10.3%	(74,509)	(21.0%)
Cash, end of year	\$ 331,727	\$ 309,937	\$ 281,011	\$ 21,790	7.0%	\$ 28,926	10.3%

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

As illustrated in the above table, the University's cash and cash equivalents increased \$21.8 million due to favorable cash flows from capital and related financing activities and noncapital financing activities, partially offset by investing activities. The cash used by capital and related financing activities decreased \$110.7 million primarily due to a reduction in construction project costs due to the completion of larger projects such as Amundson Hall. During fiscal year 2015, the University issued \$211.2 million in new bond issuances compared to \$48.2 million in fiscal year 2014. The most significant sources of cash provided by noncapital financing activities included State appropriations totaling \$642.2 million and \$616.4 million, grants totaling \$189.1 million and \$197.3 million and gifts totaling \$187.3 million and \$190.1 million in 2015 and 2014, respectively. Cash inflows for capital acquisitions from State appropriations, gifts and grants, and bonds issued during the year funded a portion of the University's equipment needs and ongoing renovation and construction initiatives.

Investing Activities

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

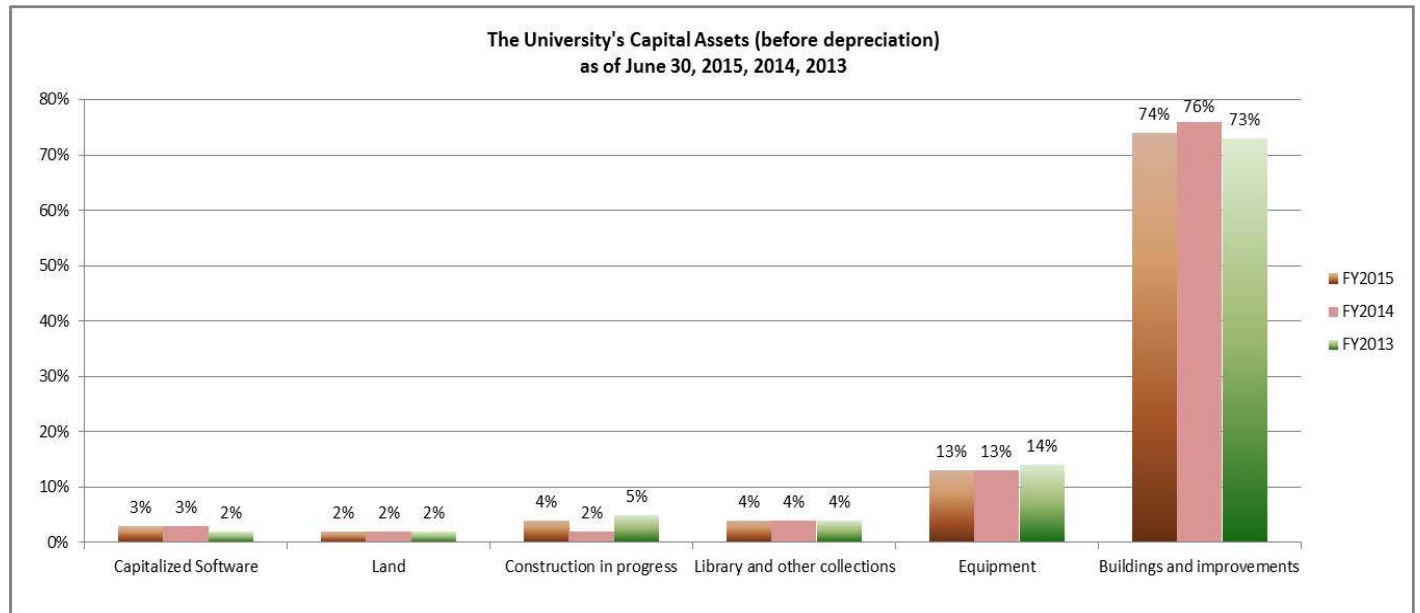
Long-term endowment and other investments included decreases from net unrealized gains on the endowment and other investments of \$45.1 million compared to increases in fiscal year 2014 and 2013 of \$120.6 million and \$13.5 million, respectively. Annual distributions of the endowment to departments, partially offset by reinvested endowment earnings decreased investments by \$50.0 million and \$46.7 million in 2015 and 2014, respectively.

To provide a relatively stable level of support for endowed programs, a specified percentage rate based on a five-year, moving-average market value of the endowment is distributed each year. These distributions

provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.5 percent in fiscal years 2015 and 2014.

Capital and Debt Activities

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



The University's Capital Asset Categories (before depreciation) for the years ended June 30, 2015, 2014 and 2013 (in thousands)

	2015	2014	2013	Increase (Decrease)			
				From 2014 to 2015		From 2013 to 2014	
				Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	\$ 4,315,157	\$ 4,256,855	\$ 3,966,992	\$ 58,302	1.4%	\$ 289,863	7.3%
Equipment	783,921	742,667	741,166	41,254	5.6%	1,501	0.2%
Library and other collections	220,470	211,287	199,366	9,183	4.3%	11,921	6.0%
Construction in progress	224,866	120,380	278,103	104,486	86.8%	(157,723)	(56.7%)
Land	111,563	94,015	91,089	17,548	18.7%	2,926	3.2%
Software and other intangibles	168,440	140,259	122,991	28,181	20.1%	17,268	14.0%
Total capital assets (gross)	\$ 5,824,417	\$ 5,565,463	\$ 5,399,707	\$ 258,954	4.7%	\$ 165,756	3.1%

Capital additions totaled \$277.9 million, \$225.8 million, and \$375.3 million in fiscal year 2015, 2014 and 2013, respectively. Fiscal year 2015 spending included the completion of the Amundson Hall Addition and the Itasca Biological Station and Laboratories, in addition to spending on existing projects such as the Tate Science and Teaching Renovation, the Combined Heat and Power Plant and the Ambulatory Care Center. Project spending continuing in fiscal year 2016 is projected to be \$88.5 million, \$73.7 million, and \$64.4 million for the Tate Science and Teaching Renovation, the Combined Heat and Power Plant and the Ambulatory Care Center, respectively. See Footnote 4 of the consolidated financial statements for more detailed information about capital assets.

Fiscal year 2015 debt activity included the issuance of General Obligation Bonds, Series 2014B and Taxable Commercial Paper Notes Series E to fund the costs of construction of a new Ambulatory Care Center and a portion of the new James Ford Bell Natural History Museum and Planetarium, respectively.

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

Factors Affecting Future Economic Conditions

Following completion of the 2013 legislative session, the University received sufficient new resources to hold Minnesota resident undergraduate tuition increase to zero percent in both 2014 and 2015. The completion of fiscal year 2015 brought to a close the State of Minnesota's two year financial support for Minnesota resident undergraduate tuition freezes.

As the new fiscal biennium begins, the Minnesota legislature provided funding for only a portion of the University's request to hold tuition steady for all resident undergraduate, graduate and professional programs. Failure to provide full funding for this initiative required the University to increase resident tuition rates for the 2015-16 academic year, though still at historically modest levels.

For fiscal year 2016, Minnesota resident tuition rates will increase 1.5 percent on all campuses, and a 2.5 percent increase for most graduate and professional programs. As a result, resident undergraduate tuition on the Twin-Cities campus will increase by \$180 for a total of \$12,240. This modest increase is offset by continued investment in need-based grant programs available to large sections of the student body.

There are three primary need-based grant programs that address the planned increase in resident undergraduate tuition.

University Promise Scholarship Program: For fiscal year 2016, the University's Promise Scholarship Program for Minnesota resident students will continue to help ensure that the University remains affordable for students from low and middle-income families. The number of students eligible for the program is projected to be more than 13,000, and they will be supported with \$30 million in Promise scholarships. Key attributes of the Promise Scholarship Program are:

1. **Equity:** All Minnesota resident undergraduates on all campuses with family incomes under \$100,000 per year will receive between \$750 and \$4,000 in scholarship aid.
2. **Progressivity:** The lowest income students receive the largest Promise scholarships.
3. **Predictability:** The Promise scholarship is guaranteed in the same amount for four years for students who matriculate as freshmen and for two years for transfer students.
4. **Measurable:** The cohort of Promise scholarship recipients is well-defined, so it is possible for the University to track the progress of Promise students and provide special support services, as appropriate, to ensure timely academic progress and success.

Given the plan to hold resident undergraduate tuition increases to 1.5 percent (coupled with changes in the Minnesota State Grant program detailed below), the University is proposing a modest increase to the Promise awards, at some income levels, in order to ensure that all Minnesota resident students qualifying for the Promise scholarship will, at a minimum, see no net tuition increase for the third year in a row. This change will add approximately \$600,000 in annual scholarship awards.

Minnesota State Grant Program: The Minnesota Office of Higher Education administers the State Grant Program, which awards need-based aid to low and moderate income students and families across the state.

State Grant awards are available to Minnesota residents generally up to \$80,000 in annual income. Over 11,000 University of Minnesota students are assisted by this program.

Given changes in the 2015 legislative session, as well as surpluses in the program, the Office of Higher Education will make formula changes to the State Grant Program that will benefit University of Minnesota students that qualify. Though every student has slightly different financial circumstances, a typical University of Minnesota student qualifying for the State Grant program will see an increase of \$470-\$540 in 2015-16 over current year award levels.

Federal Pell Grant program: The U.S. Department of Education administers the Pell Grant program for the neediest students nationwide. The Department has announced that the maximum Pell Grant award will increase from \$5,730 to \$5,775 for the 2015-16 academic year.

The collective changes in these three need-based grants programs are significant for students that qualify.

- Most Minnesota resident students that qualify for the University of Minnesota Promise program (students and families with an annual income up to \$100,000) will, at a minimum, see no change in their net tuition payment in 2015-16 over the current year expense.
- A typical full-time Minnesota resident student that qualifies for the State Grant program and/or the federal Pell program will have all or nearly all of their increase in total cost of attendance covered by increases in these grant programs. Total cost of attendance includes tuition, fees, room, board, and other miscellaneous living expenses.

Reducing costs continues to be a top priority of the University. President Kaler and his administration are on track to reduce administrative costs by \$90 million over a six year period. The plan is built on accomplishing at least \$15 million per year in cost reductions. These dollars are being reinvested in mission-centered activities (e.g., faculty, student services, instructional, research and other program support) that directly enhance student education, maintain the exceptional quality, and ensure research innovation and outreach continue to strengthen the entire state. Year-to-date administrative cost reductions now total \$57.8 million with \$32.3 million remaining to be accomplished in the remaining three years. This places the program one year ahead of schedule. Although ahead of schedule, the planned reductions for fiscal year 2017 will again target the \$15 million level.

As the University approaches fiscal year 2016 and the upcoming 2016 Minnesota legislative session scheduled to commence on March 28, 2016, capital needs will take center stage. The President and the Board of Regents have adopted a new 2016 state capital request totaling \$304.4 million. The strategic emphasis of the request is centered on six separate capital priorities:

1. System wide asset preservation and renewal projects totaling \$100.0 million.
2. University of Minnesota Duluth campus new chemistry and advanced materials facility totaling \$40.8 million.
3. University of Minnesota Twin-Cities campus new Health Education facility totaling \$100.0 million.
4. University of Minnesota Twin-Cities campus new plan growth facility totaling \$6.6 million.
5. System wide academic and student experience projects totaling \$24.0 million.
6. University of Minnesota Twin-Cities campus renovation of Pillsbury Hall totaling \$33.0 million.

The successful funding of these 6 projects will result in increased utilization and functionality of physical assets, the opportunity to renovate and remove obsolete facilities, advance the health sciences through modern educational facilities, modernize the University's research laboratories, and expand capacity in STEM (Science, Technology, Engineering, and Math) programs.

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

June 30, 2015 and 2014 (in thousands)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 183,451	\$ 243,049
Short-term investments	185,724	676
Receivables, net	274,713	302,424
Inventories	22,895	22,519
Student loans receivable, net	10,623	9,899
Prepaid expenses	16,504	11,034
Other assets	205	376
Total current assets	<u>694,115</u>	<u>589,977</u>
Noncurrent assets		
Restricted cash and cash equivalents	148,276	66,888
Investments	2,058,079	2,091,718
Receivables, net	13,584	14,554
Student loan receivables, net	58,860	57,145
Prepaid expenses	2,380	1,634
Capital assets, net	2,957,133	2,900,494
Total noncurrent assets	<u>5,238,312</u>	<u>5,132,433</u>
Total assets	<u>5,932,427</u>	<u>5,722,410</u>
Deferred Outflows of Resources		
	<u>25,100</u>	
Liabilities		
Current liabilities		
Accounts payable	140,114	131,403
Accrued liabilities and other	259,912	244,389
Unearned income	73,561	68,527
Long-term debt	309,805	272,026
Total current liabilities	<u>783,392</u>	<u>716,345</u>
Noncurrent liabilities		
Accrued liabilities and other	502,264	205,360
Unearned income	54	3,158
Long-term debt	1,111,623	1,010,481
Total noncurrent liabilities	<u>1,613,941</u>	<u>1,218,999</u>
Total liabilities	<u>2,397,333</u>	<u>1,935,344</u>
Deferred Inflows of Resources		
	<u>368,220</u>	
Net Position		
Unrestricted	290,546	812,356
Restricted		
Expendable	927,440	1,004,191
Nonexpendable	297,469	289,366
Net investment in capital assets	1,676,519	1,681,153
Total net position	<u>\$ 3,191,974</u>	<u>\$ 3,787,066</u>

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, 2015 and 2014 (in thousands)

	University of Minnesota Foundation		University of Minnesota Physicians	
	2015	2014	2015	2014
Assets				
Cash and cash equivalents	\$ 35,649	\$ 21,910	\$ 79,558	\$ 73,179
Investments, substantially at fair market value	2,330,756	2,267,360	27,388	28,561
Pledges receivable, net	174,328	142,775		
Accounts and other receivables	80,652	20,202	72,201	80,432
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	97,891	97,416		
Gift annuities	35,972	40,256		
Property and equipment, net	63,604	64,637	5,904	8,012
Prepays and other assets	855	830	1,765	1,849
Total assets	<u>2,819,707</u>	<u>2,655,386</u>	<u>186,816</u>	<u>192,033</u>
Liabilities				
Accounts payable and accrued liabilities	32,005	23,507	69,660	84,929
Gift annuities payable	19,156	20,344		
Unitrusts, pooled income, and annuity trusts payable	11,688	11,633		
Investments held for custody of others	252,901	250,176		
Securities purchased but not settled	11,863			
Bonds and capital lease payable	51,297	51,236	580	852
Total liabilities	<u>378,910</u>	<u>356,896</u>	<u>70,240</u>	<u>85,781</u>
Net Assets				
Unrestricted	101,924	80,800	116,576	106,252
Temporarily restricted	1,330,078	1,266,264		
Permanently restricted	1,008,795	951,426		
Total net assets	<u>2,440,797</u>	<u>2,298,490</u>	<u>116,576</u>	<u>106,252</u>
Total liabilities and net assets	<u>\$ 2,819,707</u>	<u>\$ 2,655,386</u>	<u>\$ 186,816</u>	<u>\$ 192,033</u>

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, 2015 and 2014 (in thousands)

		2015	2014
Revenues			
Operating revenues	Student tuition and fees, net of scholarship allowances of \$253,892 in 2015; \$248,030 in 2014	\$ 740,540	\$ 732,821
	Federal grants and contracts	464,751	480,177
	State and other government grants	59,566	63,848
	Nongovernmental grants and contracts	348,103	292,794
	Student loan interest income	1,838	1,831
	Sales and services of educational activities, net of scholarship allowances of \$27 in 2015; \$28 in 2014	141,501	145,303
	Auxiliary enterprises, net of scholarship allowances of \$9,787 in 2015; \$9,423 in 2014	399,256	376,449
	Other operating revenues	99	137
Total operating revenues		<u>2,155,654</u>	<u>2,093,360</u>
Expenses			
Operating expenses	Education and general		
	Instruction	770,325	769,479
	Research	700,208	679,718
	Public service	248,451	253,141
	Academic support	366,992	394,927
	Student services	116,016	116,575
	Institutional support	243,153	256,641
	Operation & maintenance of plant	276,783	285,938
	Scholarships & fellowships	57,879	54,519
	Depreciation	218,565	192,705
	Auxiliary enterprises	256,271	256,068
	Other operating expenses, net	93	583
Total operating expenses		<u>3,254,736</u>	<u>3,260,294</u>
Operating Loss		<u>(1,099,082)</u>	<u>(1,166,934)</u>
Nonoperating Revenues (Expenses)			
	Federal appropriations	18,192	19,072
	State appropriations	642,069	614,791
	Grants	187,749	200,895
	Gifts	182,348	197,172
	Investment income, net	82,078	234,407
	Interest on capital-asset related debt	(45,310)	(45,637)
	Other nonoperating revenues (expenses), net	25,111	(1,920)
Net nonoperating revenues		<u>1,092,237</u>	<u>1,218,780</u>
Income (Loss) Before Other Revenues		(6,845)	51,846
	Capital appropriations	59,714	83,081
	Capital grants & gifts	19,246	22,929
	Additions to permanent endowments	15,338	11,428
Total other revenues		<u>94,298</u>	<u>117,438</u>
Increase In Net Position		87,453	169,284
Cumulative effect of change in accounting principle		(682,545)	
Net position at beginning of year		<u>3,787,066</u>	<u>3,617,782</u>
Net position at end of year		<u>\$ 3,191,974</u>	<u>\$ 3,787,066</u>

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, 2015 and 2014 (in thousands)

	University of Minnesota Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2015	Total 2014
Revenues					
Contributions	\$ 6,084	\$ 207,090	\$ 58,132	\$ 271,306	\$ 189,596
Investment income, net	1,778	6,734	105	8,617	13,735
Net realized and unrealized gains (losses) on investments	2,586	88,583		91,169	220,554
Change in value of trusts	(10)	(183)	(868)	(1,061)	6,790
Support services revenue	7,356			7,356	7,091
UMF - Real Estate Advisors rental revenue	6,001			6,001	5,986
University Gateway Corporation revenue	4,415			4,415	4,376
Other revenue	798			798	2,488
Net assets released from restriction	238,410	(238,410)			
Total revenues	<u>267,418</u>	<u>63,814</u>	<u>57,369</u>	<u>388,601</u>	<u>450,616</u>
Expenses					
Program services					
Distributions for educational purposes	195,469			195,469	183,951
Support services					
Management and general	8,877			8,877	8,742
Fund-raising	29,513			29,513	27,153
UMF - Real Estate Advisors	6,105			6,105	5,921
University Gateway Corporation	6,330			6,330	5,663
Total expenses	<u>246,294</u>	<u>-</u>	<u>-</u>	<u>246,294</u>	<u>231,430</u>
Increase in net assets	21,124	63,814	57,369	142,307	219,186
Net assets at beginning of year	80,800	1,266,264	951,426	2,298,490	2,079,304
Net assets at end of year	<u>\$ 101,924</u>	<u>\$ 1,330,078</u>	<u>\$ 1,008,795</u>	<u>\$ 2,440,797</u>	<u>\$ 2,298,490</u>

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, 2015 and 2014 (in thousands)

	University of Minnesota	
	Physicians	
	Total (unrestricted)	
	2015	2014
Revenues		
Net patient service revenue	\$ 201,469	\$ 198,100
Investment income, net	1,163	1,263
Net realized and unrealized gains (losses) on investments	(268)	143
Other revenue	277,264	270,151
Gain on sale of oncology clinic		13,556
Total revenues	479,628	483,213
Expenses		
Program services		
Health care services	423,268	415,121
Support services		
Management and general	46,036	44,925
Total expenses	469,304	460,046
Increase in net assets	10,324	23,167
Net assets at beginning of year	106,252	83,085
Net assets at end of year	\$ 116,576	\$ 106,252

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, 2015 and 2014 (in thousands)

	2015	2014
Cash Flows From Operating Activities		
Grants and contracts (federal, state, nongovernmental, other)	\$ 883,886	\$ 842,339
Student tuition and fees	747,845	731,580
Auxiliary enterprises	401,750	381,991
Sales and services of educational activities	141,702	152,455
Collection of loans to students	12,154	15,798
Other operating revenues	99	137
Payments to employees for services	(1,565,614)	(1,540,179)
Payments to suppliers for goods and services	(954,327)	(958,378)
Payments for fringe benefits	(500,111)	(494,881)
Payments for scholarships and fellowships	(44,809)	(41,713)
Loans issued to students	(13,915)	(13,433)
Net cash used by operating activities	(891,340)	(924,284)
Cash Flows From Noncapital Financing Activities		
State appropriations	642,189	616,446
Grants for other than capital purposes	189,083	197,328
Gifts for other than capital purposes	187,278	190,094
Other nonoperating revenues, net	26,498	10,616
Federal appropriations	25,678	19,329
Private gifts for endowment purposes	7,669	11,428
Direct lending receipts	310,197	315,294
Direct lending disbursements	(310,445)	(314,944)
Agency transactions	1,063	(6,623)
Net cash provided by noncapital financing activities	1,079,210	1,038,968
Cash Flows From Capital and Related Financing Activities		
Proceeds from capital debt	211,158	50,986
Capital appropriations	60,871	81,521
Capital grants and gifts	6,766	10,579
Proceeds from sale of capital assets	1,089	863
Principal received on notes receivable	992	844
Interest received on notes receivable	567	321
Purchases of capital assets	(251,309)	(223,333)
Principal paid on capital debt	(70,400)	(67,121)
Interest paid on capital debt	(53,528)	(50,438)
Issuance of notes receivable	(50)	(8,755)
Net cash used by capital and related financing activities	(93,844)	(204,533)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	870,959	930,671
Investment income, net	123,920	96,702
Purchase of investments	(1,067,115)	(908,598)
Net cash provided (used) by investing activities	(72,236)	118,775
Net Increase in Cash and Cash Equivalents	21,790	28,926
Cash and Cash Equivalents at Beginning of Year	309,937	281,011
Cash and Cash Equivalents at End of Year	\$ 331,727	\$ 309,937

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, 2015 and 2014 (in thousands)

**Reconciliation of Net Operating Revenues (Expenses)
to Net Cash Used by Operating Activities**

	2015	2014
Operating loss	\$ (1,099,082)	\$ (1,166,934)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	218,565	192,705
Changes in assets, deferred outflows of resources, and liabilities		
Receivables, net	17,944	13,218
Inventories	(136)	(84)
Prepaid and other items	(5,092)	726
Deferred outflows of resources	(23,450)	
Accounts payable	13,460	10
Accrued liabilities	(15,037)	32,453
Unearned income	1,488	3,622
Net cash used by operating activities	<u>\$ (891,340)</u>	<u>\$ (924,284)</u>

Noncash Investing, Capital, and Financing Activities

Unrealized gains (losses) on investments	\$ (40,730)	\$ 140,458
Capital assets on account	39,203	33,540
Contribution of capital assets	12,480	7,639
Amortization of bond discount/premium	4,494	4,031
Capital assets acquired with capital lease	2,656	1,944

Cash and Cash Equivalents at End of Year

Cash and cash equivalents	\$ 183,451	\$ 243,049
Restricted cash and cash equivalents	148,276	66,888
Total cash and cash equivalents at End of Year	<u>\$ 331,727</u>	<u>\$ 309,937</u>

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

Notes to Consolidated Financial Statements

Years ended June 30, 2015 and 2014 (in thousands)

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

Organization

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

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

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

Reporting Entity

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

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

RUMINCO, Ltd.

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

UMore Development Limited Liability Company (LLC)

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

Discretely Presented Component Units—The University's financial statements include the financial data of two tax-exempt component units. They are reported in separate columns on separate pages. GASB 61 requires discrete presentation of component units when either the resources held by these entities can only be

used by, or for the benefit of, the University or its component units; or the component units are closely related to, or financially integrated with the University.

University of Minnesota Foundation

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

During fiscal years 2015 and 2014, the UMF distributed \$218,061 and \$209,829, 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 2015 and 2014, UMP distributed \$85,588 and \$83,447, respectively, to the University. Complete financial statements for University of Minnesota Physicians can be obtained from the Chief Financial Officer, 720 Washington Ave S.E., Suite 200, Minneapolis, MN 55414.

Component Units

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

Joint Ventures

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

2407 University Investment, LLC

The University is a participant in a joint venture, 2407 University Investment, LLC with United Properties Investment, LLC. The joint venture owns and operates a hotel and acts as a lessor of a restaurant on property

adjacent to the Twin Cities campus. The joint venture also provides the University the opportunity to plan with United Properties Investment, LLC future redevelopment of the parcel of land. It is governed by a five member board of governors, for which the University shall have the right to appoint two of the governors. In addition, the University has 49 percent membership with an equity interest of \$1,692 as of June 30, 2015. 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 2015 and 2014, the University received \$416 and \$208, respectively, in interest income. As of June 30, 2015 and 2014, \$8,750 in principal remains outstanding. Complete financial statements can be obtained from 2407 University Investment, LLC, c/o United Properties Investment, LLC, 3600 American Blvd, Ste. 750, Minneapolis, MN 55431.

Financial Statement Presentation

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

Basis of Accounting

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

Significant Accounting Policies

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

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

The University uses derivative instruments for a variety of purposes. Financial futures are used to maintain investment portfolio asset allocations in accordance with institutional policy and to enhance the investment returns of certain asset classes. Forward foreign exchange contracts are used to protect against foreign currency exposure; gas commodity forward contracts are used to synthetically fix the price of other physical gas purchases used for University consumption; and interest rate swaps are used to manage the cost of debt. Financial futures and forward foreign exchange contracts are recorded on the contract date and are carried at

fair value using listed price quotations or amounts that approximate fair value. The University is required to post collateral, typically U.S. Treasury bills, for derivative contracts held. Collateral required by these contracts is monitored daily and required deposits or withdrawals are made as necessary. In general, the University follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Minnesota, for donor-restricted endowments. Under UPMIFA, the Board of Regents determines the prudent amount of realized and unrealized endowment appreciation to be allocated to fund current operations. Investment of the realized or unrealized appreciation in excess of the annual spending limits is discussed in Note 2.

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

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

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

Capital Assets—Land, buildings, and other property are recorded at cost, if purchased or constructed, or at market value on the date of gift, if received by gift or bequest. Depreciation is determined using the straight-line method, based on the estimated useful lives of the assets. Interest that qualified for interest capitalization is \$6,097 and \$1,473 for fiscal years 2015 and 2014, respectively.

The following schedule summarizes the useful lives and capitalization thresholds:

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

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

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

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

Deferred Inflows of Resources— Deferred Inflows of Resources represent the changes in the actuarial assumptions and methods used to calculate the net pension liability (NPL) related to the University’s participation in the State of Minnesota’s cost-sharing, multiple employer defined benefit plans, as well as changes in the University’s proportionate share in the NPL. Additional information regarding pensions is discussed in Footnote 6.

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 \$2,803 and \$2,195 for fiscal years 2015 and 2014, respectively, as well as legal settlements.
- **Operating expenses:** Expenses that are paid to acquire or produce goods and services in return for operating revenues. The University has classified operating expenses based upon their functional classification. Operating expenses by natural classification are presented in Note 12.

During fiscal years 2015 and 2014, departmental research in nonsponsored accounts of \$203,257 and \$182,617, respectively, was recorded as research expense.

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

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

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. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The provisions of this Statement are effective for fiscal year 2016.

GASB Statement No. 73 (GASB 73), *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 (GASB 67) and 68 (GASB 68)*, establishes requirements for defined benefit pensions that were not within the scope of GASB 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of GASB 68. It also amends certain provisions of GASB 67 and GASB 68 for pensions plans and

pensions that are within their respective scopes. The provisions of GASB 73 are effective for fiscal year 2016, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of GASB 68, which are effective for fiscal year 2017.

GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in GASB 75 are effective for fiscal year 2018.

GASB Statement No. 76 (GASB 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 64, 74 and 82. GASB 76 establishes the hierarchy of GAAP for state and local governments and applies to all state and local governmental entities. The provisions in GASB 76 are effective for fiscal year 2016.

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, 2015 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, 2015:

	Temporary Investment Pool	Consolidated Endowment Fund	Group Income Pool	Separately Invested Funds and other	Invested assets related to indebtedness	RUMINCO, Ltd. insurance subsidiary	Total
Cash and cash equivalents	\$ 163,724	\$ 18,255	\$ 853			\$ 619	\$ 183,451
Short-term investments	185,724						185,724
Total current assets	349,448	18,255	853			619	369,175
Restricted cash and cash equivalents					\$ 148,276		148,276
Long-term investments							
Fixed income	675,209	223,162	51,237			15,133	964,741
Public equity		421,541				24,278	445,819
Private capital		355,345					355,345
Inflation hedges		150,458					150,458
Other		124,471		\$ 17,245			141,716
Total noncurrent investments	675,209	1,274,977	51,237	17,245		39,411	2,058,079
Total cash and investments	\$ 1,024,657	\$ 1,293,232	\$ 52,090	\$ 17,245	\$ 148,276	\$ 40,030	\$ 2,575,530

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

	Temporary Investment Pool	Consolidated Endowment Fund	Group Income Pool	Separately Invested Funds and other	Invested assets related to indebtedness	RUMINCO, Ltd. insurance subsidiary	Total
Cash and cash equivalents	\$ 150,717	\$ 90,007	\$ 1,882			\$ 443	\$ 243,049
Short-term investments	676						676
Total current assets	151,393	90,007	1,882			443	243,725
Restricted cash and cash equivalents					\$ 66,888		66,888
Long-term investments							
Fixed income	805,992	211,651	43,485			13,478	1,074,606
Public equity		390,831				25,337	416,168
Private capital		365,253					365,253
Inflation hedges		198,132					198,132
Other		21,014		\$ 16,545			37,559
Total noncurrent investments	805,992	1,186,881	43,485	16,545		38,815	2,091,718
Total cash and investments	\$ 957,385	\$ 1,276,888	\$ 45,367	\$ 16,545	\$ 66,888	\$ 39,258	\$ 2,402,331

Authorizations

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

Temporary Investment Pool (TIP)—Short-Term Reserves—The TIP funds are intended to meet the current obligations of the University. The investment objectives for the TIP are to maximize current income and investment returns, maintain sufficient liquidity for University operations, and provide backup liquidity

for certain University short-term or variable-rate debt obligations. The pool may invest in money market funds, corporate obligations, and U.S. government and agency securities, within specified credit quality and term constraints.

The Board's Investment of Reserves policy allows for up to 30 percent of the pool to be invested in the Consolidated Endowment Fund (CEF). As of June 30, 2015 and 2014, the market value of the TIP assets invested in the CEF was \$138,562 and \$134,237, 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, 2015 and 2014, 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, 2015 and 2014, \$48,654 and \$46,653, respectively, was made available for departmental spending.

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

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

The CEF is a diversified portfolio that utilizes external investment managers. The CEF assets are held in separately managed accounts, commingled pools, and limited partnerships (LP). Each of these fund structures has different risk and return characteristics. LP investments are privately negotiated transactions with limited liquidity. LPs are required to conduct an external audit annually in accordance with the Financial Accounting Standards Board or the International Accounting Standards Board. As of June 30, 2015 and 2014, the University had unfunded commitments to LPs of \$247,967 and \$220,576, respectively, which are commitments that have not been drawn down by the general partners.

Group Income Pool (GIP)—Long-Term Reserves—The GIP represents assets invested for the benefit of various University units for long-term capital purposes. The investment objective of the GIP is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use. The GIP is invested in fixed-income funds through external investment managers. Additionally, up to 50 percent of the pool can be invested in the CEF. As of June 30, 2015 and 2014, the market value of the GIP assets invested in the CEF was \$14,397 and \$13,459, respectively. These assets are reported in the total cash and investments of the CEF.

Separately Invested Funds (SIF) and Other—The SIF represent restricted assets which include future licensing or royalty interests and equity in companies that are established based on University owned

technology, as well as minerals and future mineral rights assigned to the University from privately owned real estate. All of these assets have been assigned a nominal value. Investments defined as “Other” represent investments made by the University in its own intellectual property, such as copyrights, patents, and trademarks, which are developed with the primary purpose of generating royalty income from its licensing to external customers. These other investments are valued at cost, which is based on certain filing and legal expenses incurred to establish the University’s legal ownership.

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

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

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

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

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

	Investment income (net)	Net increase (decrease) in the fair market value of investments	Net investment income (loss)
Temporary Investment Pool	\$ 12,003	\$ 3,348	\$ 15,351
Consolidated Endowment Fund	114,113	(46,989)	67,124
Group Investment Pool	104	(977)	(873)
Separately Invested Funds and Other	639	(3,331)	(2,692)
Invested Assets Related to Indebtedness	2	2,660	2,662
RUMINCO, Ltd. Insurance Subsidiary	726	(220)	506
Total 2015	\$ 127,587	\$ (45,509)	\$ 82,078
Total 2014	\$ 110,130	\$ 124,277	\$ 234,407

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, 2015:

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

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

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

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, 2015, and 2014, all securities held in the pools were in compliance with policy guidelines.

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

The following table summarizes the University's exposure to foreign currency risk, stated in U.S. dollar equivalents, as of June 30, 2015 and 2014:

Investment type	Foreign currency	Market value 2015	Market value 2014
Equity/Debt/RE	Euro	\$ 65,341	\$ 70,441
Equity	British Pound Sterling	37,232	39,855
Equity	Japanese Yen	35,870	27,717
Equity	Hong Kong Dollar	12,100	15,436
Equity	Canadian Dollar	8,865	7,806
Equity	Swiss Franc	8,572	5,943
Equity	Australian Dollar	6,850	5,404
Equity/Debt	Brazilian Real	3,966	7,220
Equity	South Korean Won	3,877	4,963
Equity	Swedish Krona	3,813	2,519
Equity/Debt	Indian Rupee	3,410	1,760
Equity	New Taiwan Dollar	3,109	1,906
Equity	Turkish Lira	2,917	2,185
Equity	South African Rand	2,591	6,164
Equity/Debt	Mexican Peso	2,219	3,509
Equity	Danish Krone	1,868	971
Equity	Thailand Baht	1,833	4,184
Equity/Debt	Other Currency	1,805	841
Equity	Singapore Dollar	1,729	2,411
Equity	Indonesian Rupiah	1,179	2,167
Equity	Philippine Peso	968	990
Equity	Chinese Renminbi	867	2
Equity	Norwegian Krone	842	1,613
Equity	Polish Zloty	767	499
Equity	Malaysian Ringgit	686	2,004
Equity	Israeli Shekel	571	325
Equity	Russian Ruble	438	86
Equity	Chile Peso	404	458
Equity	New Zealand Dollar	301	138
Equity	Argentine Peso	249	
Total		\$ 215,239	\$ 219,517

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

Financial Institution Credit Risk

Deposits—Depository credit risk is the risk that in the event of a bank failure, the University's deposits may not be recovered. 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, 2015 the University's bank balances of \$185,507 were uninsured and uncollateralized and as of June 30, 2014 the University's bank balances of \$244,132 were uninsured and uncollateralized.

Investments—Custodial credit risk is the risk that, in the event of failure of the counterparty, the University may not be able to recover the value of its investments held in custodial accounts. The University currently has custodial accounts at State Street Bank & Trust Company and JPMorgan Chase. As of June 30, 2015

and 2014, the market value of investments held in the custodial accounts was \$858,832 and \$804,646 in TIP; and \$152,950 and \$101,002 in CEF; and \$22,195 and \$21,757 in GIP, respectively.

3. Other Asset and Liability Information

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

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

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

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

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

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

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

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

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

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

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

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

4. Capital Assets

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

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

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

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	\$ 3,495,733	\$ 545	\$ 299,013	\$ (17,094)	\$ 3,778,197
Leasehold improvements	9,734	645			10,379
Equipment	741,165	53,158		(51,656)	742,667
Infrastructure	461,525	3,096	3,657		468,278
Library and reference books	144,672	5,683			150,355
Capitalized software (intangible asset)	117,935	16,597			134,532
All other intangible assets	5,052	672			5,724
Total depreciable / amortizable capital assets	4,975,816	80,396	302,670	(68,750)	5,290,132
Non-depreciable / amortizable capital assets					
Land	91,090	2,925			94,015
Museums and collections	54,695	6,285	(48)		60,932
Construction in progress	278,103	136,233	(290,564)	(3,392)	120,380
Permanent right-of-way easements (intangible asset)	2	1			3
Total non-depreciable / amortizable capital assets	423,890	145,444	(290,612)	(3,392)	275,330
Accumulated depreciation / amortization					
Buildings and improvements	(1,581,243)	(95,623)	(12,058)	12,252	(1,676,672)
Leasehold improvements	(5,123)	(782)			(5,905)
Equipment	(517,497)	(59,688)		50,335	(526,850)
Infrastructure	(232,422)	(16,458)			(248,880)
Library and reference books	(84,783)	(12,184)			(96,967)
Capitalized software (intangible asset)	(98,140)	(7,412)			(105,552)
All other intangible assets	(3,584)	(558)			(4,142)
Total accumulated depreciation / amortization	(2,522,792)	(192,705)	(12,058)	62,587	(2,664,968)
Capital assets, net	\$ 2,876,914	\$ 33,135	\$ -	\$ (9,555)	\$ 2,900,494
Summary					
Depreciable / amortizable capital assets	\$ 4,975,816	\$ 80,396	\$ 302,670	\$ (68,750)	\$ 5,290,132
Non-depreciable / amortizable capital assets	423,890	145,444	(290,612)	(3,392)	275,330
Total capital assets	5,399,706	225,840	12,058	(72,142)	5,565,462
Less accumulated depreciation / amortization	(2,522,792)	(192,705)	(12,058)	62,587	(2,664,968)
Capital assets, net	\$ 2,876,914	\$ 33,135	\$ -	\$ (9,555)	\$ 2,900,494

5. Long-Term Debt

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

	Original issued amount (par)	Fiscal year issued	Coupon rates	Due at various dates through fiscal year	FY 2015 beginning balance	Additions	Reductions	FY 2015 ending balance	Current portion
General obligation bonds									
Series 2014B (tax-exempt)	\$ 145,760	2015	2.00%-5.00%	2044		\$ 145,760		\$ 145,760	
Series 2013D (taxable)	12,760	2014	0.60%-4.848%	2039	\$ 12,760		\$ 230	12,530	\$ 350
Series 2013B (taxable)	13,780	2013	2.60%-3.75%	2038	13,435		375	13,060	385
Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038	71,820		1,875	69,945	1,950
Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	51,255		1,230	50,025	1,280
Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	18,505		535	17,970	545
Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	275,590		22,615	252,975	23,985
Series 2010B (taxable)	41,720	2011	0.74%-5.02%	2036	38,200		1,320	36,880	1,335
Series 2010D (taxable)	27,200	2010	3.86%-5.77%	2030	27,200			27,200	
Series 2010C (tax-exempt)	8,480	2010	2.00%-4.00%	2016	3,015		1,485	1,530	1,530
Series 2009D (taxable)	37,330	2009	6.30%	2029	37,330			37,330	
Series 2009C (tax-exempt)	44,625	2009	1.50%-5.00%	2022	30,580		3,280	27,300	3,405
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	14,145		660	13,485	685
Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	36,060		1,140	34,920	1,190
Commercial paper notes, Series A (tax-exempt)	159,100	2006	0.06%-0.09%	2016	110,100		9,000	101,100	101,100
Commercial paper notes, Series B (tax-exempt)	61,000	2007	0.08%-1.0%	2016	40,000		3,000	37,000	37,000
Commercial paper notes, Series C (tax-exempt)	70,000	2008	0.07%-0.08%	2016	47,000		3,500	43,500	43,500
Commercial paper notes, Series D (tax-exempt)	25,000	2010	0.08%-0.09%	2016	17,700		1,300	16,400	16,400
Commercial paper notes, Series E (taxable)	51,620	2015	0.10%-0.12%	2016		51,620		51,620	51,620
Obligations to the State of Minnesota pursuant to Infrastructure development bonds	109,234	1991-2006	3.55%-5.39%	2026	21,511		3,667	17,844	3,110
Special purpose revenue bonds, Series 2013C (tax-exempt)	35,395	2014	2.00%-5.00%	2039	35,395		410	34,985	815
Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%-5.00%	2037	50,930		1,225	49,705	1,280
Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%-5.00%	2036	105,510		2,780	102,730	2,905
Special purpose revenue bonds, Series 2006 (tax-exempt)	137,250	2007	4.00%-5.00%	2030	109,300		4,915	104,385	5,165
Unamortized premiums and discounts	101,578	2007-2015		2016-2044	72,525	13,778	4,493	81,810	4,504
Capital leases and other		1999-2015	1.81%-4.21%	2025	42,641	2,656	5,858	39,439	5,766
Total	\$ 1,785,537				\$1,282,507	\$ 213,814	\$ 74,893	\$1,421,428	\$309,805

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

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

General Obligation Bonds

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

The University issued General Obligation Taxable Bonds for the University Supported Biomedical Science Research Facilities Funding Program. The proceeds will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The Series 2013D bonds were issued on November 6, 2013 in the par amount of \$12,760 at coupon rates of 0.600 – 4.848 percent. The Series 2011C bonds were issued on October 13, 2011 in the par amount of \$19,335 at coupon rates of 0.90 – 4.56 percent with a discount of \$13. The Series 2010B bonds were issued on September 30, 2010 in the par amount of \$41,720 at coupon rates of 0.74 – 5.02 percent.

On February 19, 2013, the University issued General Obligation Taxable Bonds, Series 2013B and General Obligation Bonds, Series 2013A in the par amount of \$13,780 and \$73,570, respectively. The proceeds were used to fund various capital projects including the renovation of Northrop Memorial Auditorium, the construction of a student residence hall and dining facility, and the construction of the Physics &

Nanotechnology Building, all on the Twin Cities campus, and construction of residence halls on each of the Crookston and Morris campuses. The Series 2013B bonds were issued at coupon rates of 2.60 – 3.75 percent with a premium of \$354. The Series 2013A bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of \$8,779.

The University has outstanding General Obligation Taxable Bonds, Series 2010D, Series 2010B and Series 2009D. These Series are Build America Bonds – Direct Payment to Issuer, whereby the University expects to receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. Interest payments are due August 1 and February 1 on the Series 2010D and Series 2010B, and June 1 and December 1 on the Series 2009D. Due to the implementation of federal sequestration during fiscal year 2013, the subsidy payments received beginning June 1, 2013 have been reduced by 7.3 percent, 7.2 percent and 8.7 percent in each of the federal fiscal years ending September 30, 2015, September 30, 2014, and September 30, 2013, respectively.

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

Special Purpose Revenue Bonds

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

The University issued Special Purpose Revenue Bonds, Series 2006 to finance a portion of the cost of the TCF Bank Stadium on the Twin Cities campus and to pay costs of issuance. State funding of up to \$10,250 per year for no more than 25 years has been provided to reimburse the University for the annual debt service on these bonds. The amended 2015 Minnesota Session Laws authorized the refunding of these bonds and also provided that upon refunding, annual payments will be the maximum annual \$10,250 appropriation. In addition, savings realized through the future refunding are to be used to provide \$10,000 for the predesign and design of certain health education and clinical research facilities to meet the needs of the Medical School and Academic Health Center on the Twin Cities campus.

Commercial Paper Notes

On December 17, 2014, the University issued Taxable Commercial Paper Notes Series E in the amount of \$51,620 at initial rates of 0.10 – 0.12 percent. The proceeds will be used to finance a portion of a new James Ford Bell Natural History Museum and Planetarium on the St. Paul Campus.

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

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

Auxiliary Bonds

The University's auxiliary revenue bonds were secured by the revenues, net of expenses, of the auxiliary activity to which they related, debt-service subsidy grants provided by the U.S. Department of Housing and Urban Development, and the full faith and credit of the University. Revenues were pledged until November 1, 2013, at which time the final debt obligation matured.

Infrastructure Development Bond Obligations

Pursuant to Minnesota law, the University is obligated to pay the state one third of the debt service of infrastructure development bonds issued by the state for University capital projects. Debt was issued for this purpose between July 1990 and October 2005. The total amount of outstanding debt issued by the state on behalf of the University was \$53,532 as of June 30, 2015 and \$64,531 as of June 30, 2014 of which the University owes \$17,844 and \$21,511, respectively.

Capital Leases and Other Debt

The University has six distinct capital leases. Three of the six agreements are financed through third-party financing for purchase of fleet vehicles and other equipment. The remaining three capital leases have payments being paid directly to the lessor and represent leases for buildings. Associated capital assets acquired through capital leases for buildings are \$55,451 with related accumulated depreciation of \$22,276 and capital leases for vehicles and equipment are \$13,429 and related accumulated depreciation of \$7,165. The capital leases bear interest rates between 1.81 percent and 4.21 percent, with none extending beyond fiscal year 2025. One of the third-party financing agreements bears interest, which is tied to the 30 Day LIBOR Index that cannot fall below a floor of 3.0 percent. The LIBOR Index is an average yield of interbank offered rates for one-year US dollar denominated deposits in the London Market. The 3.0 percent floor for the note payable was maintained during the fiscal year ended June 30, 2015 and does not extend beyond fiscal year 2017. A second third-party financing agreement has interest rates tied to commercial paper, which ranged from 1.81 – 2.34 percent during fiscal year ended June 30, 2015.

Interest Rate Swaps

At June 30, 2015 the University has one freestanding pay-fixed and receive-variable interest rate swap that is considered an ineffective hedge, where the changes in fair value of \$2,660 are included in investment income, net reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

The terms, fair values, and credit rating of the outstanding swap as of June 30, 2015, are as follows:

Associated bond issue	Nature of association	Notional amounts	Effective date	Fixed rate	Variable rate	Swap type	Fair value	Swap maturity date
CP, Series 2005A	Freestanding	\$ 70,000	8/27/1997	4.98%	SIFMA Index*	Pay fixed and receive variable	\$ (6,838)	8/27/2017
		\$ 70,000					\$ (6,838)	

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

Credit Risk—The swap that exists at the end of fiscal year 2015 is with a counterparty that is rated Aa2 by Moody's Investors Service. The University faces maximum possible losses equivalent to the amount of the derivative's fair value should the counterparty not perform under the terms of the swap agreements. Due to the fair value of the swap being negative as of June 30, 2015, the University was not exposed to credit risk.

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

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

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

Commercial paper interest payments and net swap payments will vary depending on current market conditions from week to week. Using rates as of June 30, 2015, debt service requirements of the University's outstanding long-term debt obligations and net swap payments for the next five years and in subsequent five-year periods are as follows:

	Bonds and obligations	Commercial paper notes	Capital lease and other	Total principal	Interest	Net interest rate swaps	Total obligations
Fiscal year ending June 30							
2016	\$ 54,420	\$ 249,620	\$ 5,766	\$ 309,806	\$ 51,032	\$ 3,444	\$ 364,282
2017	59,059		5,567	64,626	48,283	3,444	116,353
2018	61,252		5,491	66,743	45,566	547	112,856
2019	63,104		5,408	68,512	42,682		111,194
2020	51,942		4,946	56,888	40,033		96,921
2021-2025	253,927		12,261	266,188	163,342		429,530
2026-2030	268,997			268,997	102,078		371,075
2031-2035	190,302			190,302	48,877		239,179
2036-2040	94,730			94,730	15,152		109,882
2041-2044	34,636			34,636	3,364		38,000
	\$ 1,132,369	\$ 249,620	\$ 39,439	\$ 1,421,428	\$ 560,409	\$ 7,435	\$ 1,989,272

Defeased Bonds

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

Associated bond issue	Refunding date	Amount defeased	Refunded amount	Amount outstanding on June 30, 2015	Bond call date
General obligation bonds 1982 Series A	4/23/1985	\$ 112,635	\$ 112,635	\$ 29,600	12/1/2016
General obligation bonds 1996 Series A	10/2/2005	159,000	159,000	101,000	7/1/2021

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

The Series 1996A bonds were issued in January 1997 to provide funds for capital projects and to refund the general obligation variable rate demand bonds Series 1985F, 1985G, 1985H, and 1985I and the Commercial

Paper Series 1991A and Series 1991B. As required under the terms of a put option exercised July 5, 2005, the proceeds from the issuance of Commercial Paper Notes, Series A in October 2005 were used to defease the remaining outstanding Series 1996A bonds. There was no gain or loss incurred with the defeasance of the Series 1996A bonds.

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

Arbitrage

University general obligation and special purpose debt issuances issued after the Federal Tax Reform Act of 1986 are subject to federal arbitrage regulations. This results when earnings on the invested gross proceeds of a bond issue exceed the issuer's tax-exempt borrowing rates. The University continues to monitor and report any arbitrage in accordance with the Internal Revenue Code. The University had no arbitrage liability at June 30, 2015 or June 30, 2014.

6. Pension Plans

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

Defined Benefit Plans

Cost-sharing, multiple-employer plans

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

United States Government (Federal) Retirement Plans

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

Civil Service Retirement System (CSRS)

The Civil Service Retirement System (CSRS) is a federal program that provides retirement benefits for approximately 19 employees who work for the University. Participation is limited to those who initially entered federal service prior to January 1, 1984, and have been continuously employed since December 31, 1983, or before, or have had a break in federal service of one year or less since 1984. It is closed to new members. Retirement benefits are based on years and months of service. CSRS provides full retirement

benefits at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service. Deferred benefits are payable at age 62 with 5 years of service. The annuity formula provides 1.5 percent of average salary for the first five years of service, 1.75 percent for the next five years, and 2.0 percent for any remaining service, up to a maximum of 80 percent of average salary (based on the highest three consecutive years of salary).

Civil Service Retirement System Offset Retirement (CSRS Offset)

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

Federal Employees Retirement System (FERS)

The Federal Employees Retirement System (FERS) is a federal program that provides retirement benefits for approximately 85 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%	13.20%
Required contributions (\$)			
Employee			
2015	\$ 139	\$ 6	\$ 59
2014	152	6	60
2013	172	6	59
University			
2015	\$ 139	\$ 35	\$ 938
2014	152	35	894
2013	172	34	878

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

State Employees' Retirement Fund (SERF)

The State Employees' Retirement Fund (SERF) is administered by the Minnesota State Retirement System (MSRS). SERF, in total, provides coverage to approximately 16 employers within the state of Minnesota. The University's participation in SERF covers approximately 8,700 active Civil Service and non-faculty bargaining unit employees. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions are established by state statute and can only be modified by state legislature. Benefits are based on a member's age, years of allowable service, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

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

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

Funding Policy and Contribution Rates

	PEPFF	SERF
Statutory authority		
Minnesota chapter	353	352
Required contribution rates (%)		
Active plan members	10.80% *	5.50% **
University	16.20% *	5.50% **
Required contribution rates (\$)		
University	\$ 885	\$ 22,565
Non-Employer Contributing Entity	55	

* Required contribution rates increased to 10.80% (active plan members) and 16.20% (University) on January 1, 2015. Members and the University were required to contribute 10.20% and 15.30%, respectively, of their annual covered salary in fiscal year-ended June 30, 2014.

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

Net pension liability amounts recorded with the implementation of GASB 68 within the University's financial statements are reflective of the respective plan's published financial statements and actuarial valuations as of June 30, 2014. 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, 2013, through June 30, 2014, relative to the total contributions from all participating employers, as well as on-behalf State contributions paid directly to PEPFF. As a result, contributions made to the respective plans in fiscal year-ended June 30, 2015, are recorded as deferred outflows of resources per GASB 71.

Summary of Pension Amounts

	PEPFF	SERF	Total
Proportionate Share of the Net Pension Liability (\$)	\$ 6,567	\$ 259,954	\$ 266,521
Proportionate Share of the Net Pension Liability (%)			
2015	0.613%	15.465%	
2014	0.608% *	16.031% *	
Deferred Outflows of Resources	\$ 2,535	\$ 22,565	\$ 25,100
Deferred Inflows of Resources	\$ 3,240	\$ 364,980	\$ 368,220
Net Pension Expense	\$ 701	\$ (50,101)	\$ (49,400)
Non-Operating Grant Revenue	\$ 55		\$ 55

*Percentage applied in calculating the net pension liability for fiscal year-ended June 30, 2015.

Deferred Outflows of Resources

	PEPFF	SERF	Total
Difference between expected and actual experience	\$ 9		\$ 9
Changes in assumptions	1,641		1,641
Contributions paid to plan subsequent to measurement date	885	\$ 22,565	23,450
Total	\$ 2,535	\$ 22,565	\$ 25,100

Deferred Inflows of Resources

	PEPFF	SERF	Total
Difference between expected and actual experience		\$ 5,646	\$ 5,646
Changes in assumptions		189,462	189,462
Net difference between projected and actual earnings on investments	\$ 3,240	134,837	138,077
Changes in proportion and differences between actual contributions and proportionate share of contributions		35,035	35,035
Total	\$ 3,240	\$ 364,980	\$ 368,220

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

	Fiscal Year	PEPFF	SERF	Total
	2016	\$ (480)	\$ (91,245)	\$ (91,725)
	2017	(480)	(91,245)	(91,725)
	2018	(480)	(91,245)	(91,725)
	2019	(480)	(91,245)	(91,725)
	2020	330		330
Net pension expense		\$ (1,590)	\$ (364,980)	\$ (366,570)
Deferred outflows reduction to net pension liability		885	22,565	23,450
Net deferred inflows		\$ (705)	\$ (342,415)	\$ (343,120)

The University's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the respective plans. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Methods and Assumptions

	PEPFF*		SERF*	
Valuation date	6/30/2014		6/30/2014	
Actuarial cost method	Entry age normal		Entry age normal	
Asset valuation method	5-year smoothed market		Fair value	
Long-term expected rate of return	7.90%		7.90%	
20-year municipal bond rate	4.29%	**	4.29%	**
Inflation	2.75%		2.75%	
Salary increases	Service related rates		Service related rates	
Payroll growth	3.50%		3.50%	
Experience study dates	2010	***	2004 - 2008	***

* Mortality rates were based on RP-2000 Generational Mortality Tables, and adjusted as appropriate to match experience.

** Based on the Bond Buyer 20-Bond Index of general obligation municipal bonds as of June 26, 2014.

*** Update of 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, 2014 of the respective plans. The actual selection of the rate was determined by looking at the asset class target allocations and long-term rate of return expectations from the State Board of Investments (SBI), along with other information, such as the Social Security Trustees Report, the U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

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

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

SBI Asset Class

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

The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position at June 30, 2014, was projected to be available to make all projected future benefit payments of current and active employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments (June 30, 2015 through June 30, 2114) to determine the total pension liability.

The MSRS completed a similar analysis as of July 1, 2013, based on a long-term expected rate of return of 7.90 percent and a municipal bond rate of 4.63 percent. The projection showed that assets would be available to pay benefits only through 2045, with a resulting single discount rate of 6.63 percent, and an increase of 1.27 percent between the beginning and the end of the measurement period.

In addition to the change in MSRS' single discount rate from 6.63 percent to 7.90 percent, other notable changes affecting the measurement of MSRS' total pension liability since the prior measurement date included:

- Post-retirement benefit increase from 2.0 percent indefinitely, to 2.0 percent through 2015, and 2.5 percent thereafter;
- Member and contribution rates increases from 5.0 percent to 5.5 percent effective July 1, 2014;
- Beginning July 1, 2014, the funding ratio threshold that must be attained to pay a 2.5 percent post-retirement benefit increase to benefit recipients was changed from 90 percent for one year to 90 percent for two consecutive years.

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

Discount Rate Sensitivity

Pension Plan	1.0% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1.0% Increase in Discount Rate (8.9%)
PEPFF	\$ 13,154	\$ 6,567	\$ 1,139
SERF	524,633	259,954	40,020

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

Single-employer plan

Supplemental Benefits Plan (SBP)

The Supplemental Benefits Plan (SBP) is a plan sponsored by the University pursuant to the Board of Regents governing authority. This plan is in addition to the Faculty Retirement Plan (FRP), where faculty members employed prior to 1963 and female participants employed prior to July 1, 1982, may be eligible to receive additional benefits. SBP is designed to provide additional retirement benefits for certain groups of individuals who participated in the FRP, but who, due to plan design, have retirement income levels that are significantly lower than those of current participants. It accounts for 128 eligible participants. SBP is funded in an amount equal to or greater than the amount required under statute. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. The eligible population under the plan is a closed group. An internal faculty and staff retirement program report is prepared on a fiscal year basis. Questions regarding the SBP may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Funding Policy

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

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

Annual Pension Cost and Net Pension Obligation

Annual required contribution (ARC)	\$	6
Interest on net pension obligation (NPO)		108
Adjustment to ARC		(373)
Annual pension cost (expense)	\$	(259)
Less contributions made – fiscal year ended June 30, 2015		(26)
Decrease in NPO	\$	(285)
NPO—June 30, 2014		2,156
NPO—June 30, 2015	\$	1,871

Three-Year Trend Information

Fiscal year ended	Annual pension cost	Employer contribution	Percentage of annual pension cost contributed	Net pension obligation
6/30/2015	\$ (259)	\$ 26	N/A	\$ 1,871
6/30/2014	127	393	309.45%	2,156
6/30/2013	149	409	274.50%	2,422

Schedule of Funding Progress

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2014	\$ 1,721	\$ 1,754	\$ 33	98.12%	\$ 512	6.45%
7/1/2013	1,761	4,219	2,458	41.74%	558	440.50%
7/1/2012	1,883	4,672	2,789	40.30%	659	423.22%

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

Actuarial Methods and Assumptions

Valuation date	7/1/2014
Actuarial cost method	Entry age
Amortization method	Level of dollar by 6/30/2021, closed
Remaining amortization period	7 years
Asset valuation method	Fair market value, smoothed over 5 years
Actuarial assumptions	
Investment rate of return	5.00%
Projected salary increase	3.50%
Cost of living adjustment	2.50%

Defined Contribution Plans

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

Faculty Retirement Plan (FRP)

The Faculty Retirement Plan (FRP) is a mandatory retirement savings/investment plan contingent on meeting certain prescribed eligibility requirements. Pursuant to the University's Board of Regents governing authority, in compliance with Section 401(a) of the Internal Revenue Code, it authorizes the University to contribute to the plan and governs the requirements of this plan. Eligibility requirements involve an employee appointment of at least nine months; employee appointments between 67 to 99 percent time are granted prorated participation. The waiting period for certain salary classes was eliminated effective June 29, 2014. The plan is funded through employee pre-tax contributions and University contributions. Eligible academic employees with hire dates prior to January 2, 2012 contribute 2.5 percent of covered salary and the University contributes 13.0 percent. Eligible employees with a start date (or who were rehired) on or after January 2, 2012 contribute 5.5 percent of covered salary and the University contributes 10.0 percent. The FRP covers approximately 9,200 active faculty and professional and administrative (P&A) staff. This amount includes approximately 3,000 with hire dates on or after January 2, 2012.

University of Minnesota Optional Retirement Plan (ORP)

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

University of Minnesota Section 457 Deferred Compensation Plan

The 457 Deferred Compensation Plan is a voluntary retirement savings plan authorized under Section 457 of the Internal Revenue Code. This plan is funded exclusively through employee pre-tax contributions. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. Approximately 1,000 full- and part-time employees contribute to this plan.

University of Minnesota 415(m) Retirement Plan

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

Contributions Made for Fiscal Year 2015

	FRP	ORP	457	415(m)
Employee	\$ 27,132	\$ 40,191	\$ 13,744	N/A
University	100,584	363	N/A	\$ 1,003

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 \$224,866 on June 30, 2015. The estimated cost to complete these facilities is \$362,946, which is to be funded from plant fund assets and \$103,126 in appropriations available from the State of Minnesota as of June 30, 2015.

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

The University is obligated under various operating leases for the use of real property and equipment. Total operating lease expenditures for the years ended June 30, 2015 and 2014, were \$18,200 and \$18,638, respectively, of which \$13,782 and \$14,512 were for real property and \$4,418 and \$4,126 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2015, for the next five years and in subsequent five-year periods are as follows:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2016	\$ 246	\$ 8,480	\$ 8,726
2017	246	6,833	7,079
2018	246	4,222	4,468
2019	246	3,259	3,505
2020		2,954	2,954
2021-2025		9,744	9,744
2026-2030		7,941	7,941
2031-2035		6,946	6,946
2036-2040			
Total commitments	\$ 984	\$ 50,379	\$ 51,363

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

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

9. Self-Insurance Programs

The University is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly-owned, single parent captive insurance company (see Note 1). Claims are reported to a third-party administrator, which pays expenses and estimates claim liabilities. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In addition, an actuarial liability is established for incurred but not reported (IBNR) claims using a discount rate of 0.83 percent.

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

The University's medical (health) coverage for faculty and staff and their dependents is a self-insured program (UPlan). Under UPlan Medical, the University pays claims and establishes reserves, and the administration of the program is handled by two independent administrators: Medica for medical plan administration, and Prime Therapeutics for pharmacy benefit management. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than \$800,000 in a single year. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded within the consolidated statements of net position.

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

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

The University's medical (health) coverage for eligible students and their dependents is a self-insured program (Student Health Benefit Plan). Under the Student Health Benefit Plan, the University pays claims and establishes reserves, and the administration of the program is handled by Blue Cross and Blue Shield of Minnesota. The administrator offers medical conversion policies to eligible University students who are able to convert their SHBP coverage to single coverage after graduation. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than \$267,500 in a single year in addition to aggregate stop-loss coverage for claims totals over 115 percent of plan year claims. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded. The University also carries a student health plan for the Academic Health Center (AHC-Student Health Benefit Plan). The plan is self-insured and the health carrier is Blue Cross and Blue Shield of Minnesota. An estimated claims liability ensures that funds are available to cover claims up to the point where stop-loss coverage begins. The AHC Plan also offers self-insured Dental Plan preventive benefits at Boynton Health Service without a third party administrator.

Medical coverage for eligible Medical Residents and Fellows is also a self-insured program. Under the Medical & Resident medical plan, the University pays claims and establishes reserves. The program is

administered by HealthPartners. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded. The Medical & Resident group also offers a fully insured Dental Benefit Plan through Delta Dental.

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

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

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

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

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

10. Termination Benefits

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

Contract Buyouts

University contract buyouts apply when an employee resigns his or her duty and the University has agreed to pay additional compensation based on the contractual employment agreement. Benefits outstanding as of June 30, 2015 and 2014 are paid in the subsequent fiscal year and affect only the Twin Cities campus. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due.

Retirement Incentives

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

Severance Lump-Sum Payouts and Continuing Healthcare Subsidies

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

Vacation

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

Academic Professional and Administrative (P&A) Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2015	129	\$ 1,031
2014	88	768

Civil Service Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2015	160	\$ 1,009
2014	73	639

Faculty Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2015	113	\$ 3,409
2014	109	1,208

Graduate Assistant Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2015	32	\$ 42
2014	15	26

Represented Bargaining Unit Staff Contracts

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

University liability as of June 30	Number of staff members	Liability amount
2015	152	\$ 829
2014	193	2,600

11. Other Postemployment Benefits

Description of Plan

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

Funding Policy

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

The following premium rates were in effect for fiscal year 2015:

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

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2015, the University paid \$6,627 on behalf of former employees and eligible disabilitants who participate in the UPlan.

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution (ARC)	\$ 28,984
Interest on net OPEB obligation	3,374
Adjustment to annual required contribution	(6,792)
Annual OPEB cost (expense)	25,566
Less contributions made – fiscal year ended June 30, 2015	(6,627)
Increase in net OPEB obligation	18,939
Net OPEB obligation—June 30, 2014	101,288
Net OPEB obligation—June 30, 2015	\$ 120,227

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

Fiscal year ended	Annual OPEB cost	Employer contribution	Percentage of annual OPEB cost contributed	Net OPEB obligation
6/30/2015	\$ 25,566	\$ 6,627	25.9%	\$ 120,227
6/30/2014	24,266	5,411	22.3%	101,288
6/30/2013	26,192	6,746	25.8%	82,433

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, is as follows:

Actuarial accrued liability (AAL)	\$	91,276
Actuarial value of plan assets		
Unfunded actuarial accrued liability (UAAL)	\$	91,276
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Increase in net OPEB obligation	\$	18,939
Covered payroll (active plan members)	\$	1,298,697
UAAL as a percentage of covered payroll		7.03%

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Some of the specific assumptions that were taken into consideration when calculating the actuarial valuations were participant age, years of service, salary increases, benefit election patterns, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information following the notes to the financial statements, presents the results of the University's OPEB valuation as of June 30, 2015.

Actuarial Methods and Assumptions

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

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

Valuation date	7/1/2015
Actuarial cost method	Entry age
Amortization method	Level Dollar, Open Group
Remaining amortization period	20 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	3.33%
Projected Payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	7.50%
2nd year rate	7.30%
Ultimate rate	5.00%
Year ultimate rate reached	2050

12. Operating Expenses by Natural Classification

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

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 670,731	\$ 99,594			\$ 770,325
Research	437,155	263,053			700,208
Public service	157,255	91,196			248,451
Academic support	282,555	84,437			366,992
Student services	89,077	26,939			116,016
Institutional support	171,500	71,653			243,153
Operation and maintenance of plant	104,725	172,058			276,783
Scholarships and fellowships	10,392	3,470	\$ 44,017		57,879
Depreciation				\$ 218,565	218,565
Auxiliary enterprises	100,965	155,306			256,271
Other operating expense		93			93
	\$ 2,024,355	\$ 967,799	\$ 44,017	\$ 218,565	\$ 3,254,736

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

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

13. Subsequent Events

On August 26, 2015, the University issued Special Purpose Revenue Refunding Bonds Series 2015A and General Obligation Taxable Bonds Series 2015B. The Series 2015A was issued in the par amount of \$90,075 at coupon rates of 2.0 – 5.0 percent with a premium of \$14,170 to defease and refund the Special Purpose Revenue Bonds Series 2006. A gain of \$2,050 was recognized on the transaction. Net proceeds were deposited in an escrow account to pay the principal and interest due on the Series 2006 bonds to and including August 1, 2016, and to pay the redemption price of the Series 2006 bonds maturing on or after August 1, 2017. The Series 2015B was issued in the par amount of \$10,110 at coupon rates of 0.799 – 4.039 percent. Proceeds will be used to finance the predesign and design of improved health education and clinical research facilities to meet the needs of the Medical School and Academic Health Center on the Twin Cities campus.

14. Component Units

Discretely Presented Component Units

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

Investments

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

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

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

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

The investments as of June 30, 2015, are summarized as follows:

	Traditional structures	Alternate structures	Total
Cash and cash equivalents	\$ 273,252		\$ 273,252
Fixed income	348,434	\$ 191,523	539,957
Global equity	54,615	212,541	267,156
Hedge funds	22,602	328,073	350,675
Natural resources	28,623	107,029	135,652
Treasury inflation protected securities (TIPS)	130,013		130,013
Real estate		68,226	68,226
Private equity		595,482	595,482
Other investments		4,461	4,461
Subtotal	857,539	1,507,335	2,364,874
Less charitable gift annuities reported separately			(34,118)
Total			\$ 2,330,756

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

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

Net asset values provided by external investment managers for alternative structures include estimates, appraisals, assumptions, and methods that are reviewed by management. It is possible that the redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and, consequently, the fair value of UMF's interests in the funds. At June 30, 2015 and 2014, UMF has \$1,507,335 and \$1,466,259 respectively, of investments in alternative structures which are reported at net asset value as a practical expedient. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if UMF were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Fair Value Measurements

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

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

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fixed income securities are generally traded in the over-the-counter market and are valued at a price that reflects fair value as quoted by dealers in these securities or by an independent pricing service. These prices are based on observable market data for the same or similar securities, including quoted prices in markets that are not active, or matrix pricing or other similar techniques that use observable market inputs, such as benchmark yields, expected prepayment speeds and volumes, and issuer ratings.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

UMF early adopted the standard on disclosure for investments in certain entities that calculate net asset value per share or its equivalent which removes those investments that calculate net asset value per share from the fair value disclosure.

The following table summarizes UMF's financial assets and other liabilities measured at fair value on a recurring basis at June 30, 2015:

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

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

	2014			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Investments:				
Fixed income:				
Asset backed securities		\$ 59,901		\$ 59,901
Mortgages		26,947		26,947
Corporate bonds	\$ 50	9,369		9,419
Government	556	147,702		148,258
Other	6,266	3,370		9,636
Global equity:				
Small cap	37,959			37,959
Large cap	43,011			43,011
Other		15		15
Hedge funds:				
Fixed income arbitrage	22,910			22,910
Natural resources				
Treasury inflation protected securities (TIPS)		74,983		74,983
Total investments	\$ 110,752	\$ 322,287		433,039
Cash and cash equivalents				406,327
Investments measured at net asset value or its equivalent				1,466,259
Total Investments and Cash				\$ 2,305,625
Gift annuities not categorized above	\$ 1,990			\$ 1,990
Beneficial interest in perpetual trusts			\$ 67,575	67,575
Assets held in charitable trusts	21,758	\$ 3,744		25,502
Beneficial interest in trusts			4,341	4,341
UGC derivative financial instrument		(1,911)		(1,911)

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

	Beginning balance at July 1, 2014	Change in carrying value of trusts	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2015
Fixed Income:						
Other		\$ (4)	\$ (5)	\$ 38,767	\$ (11,000)	\$ 27,758
		\$ (4)	\$ (5)	\$ 38,767	\$ (11,000)	\$ 27,758

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

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

	Beginning balance at July 1, 2013	Change in carrying value of trusts	Ending balance at June 30, 2014
Beneficial interest in trusts	\$ 5,630	\$ (1,289)	\$ 4,341
Beneficial interest in perpetual trusts	67,619	(44)	67,575

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

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

	2014			
	Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Alternative Investments:				
Fixed income	\$ 78,417	\$ 40,516	None	None
			None or Daily to	None or 0-180
Global equity	293,909		Annually	Days
			None or Monthly to	None or 30-180
Hedge funds	378,697		Annually	Days
Natural resources	128,701	37,338	None	None
Real estate	111,639	36,077	None or Quarterly	None or 30 Days
Private equity	471,463	130,678	None	None
Other investments	3,433		None	None
Total	<u>\$ 1,466,259</u>	<u>\$ 244,609</u>		

Net Assets

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

1. Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of UMF.
2. Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are time restricted.
3. Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the resources be maintained permanently, but permit UMF to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available as of June 30 for the following purposes:

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

	2015	2014
Capital improvement/facilities	\$ 8,351	\$ 8,479
Faculty support	9,189	9,652
Scholarships and fellowships	129,475	133,737
Lectureships, professorships, and chairs	191,104	191,232
College program support	59,172	62,928
Research	12,255	13,469
Other	2,109	2,184
Subtotal	\$ 411,655	\$ 421,681

Gifts and other unexpended revenues and gains available for:

Capital improvement/facilities	\$ 152,359	\$ 118,783
Faculty support	16,423	15,142
Scholarships and fellowships	148,429	145,544
Lectureships, professorships, and chairs	40,111	40,742
College program support	400,400	370,911
Research	140,370	132,441
Trusts	11,351	12,878
Other	8,980	8,142
Subtotal	918,423	844,583
Total temporarily restricted net assets	\$ 1,330,078	\$1,266,264

Permanently Restricted Net Assets

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

	2015	2014
Capital improvement/facilities	\$ 7,844	\$ 7,744
Faculty support	18,841	21,612
Scholarships and fellowships	416,216	387,190
Lectureships, professorships, and chairs	362,462	339,752
College program support	87,865	80,276
Research	35,740	37,916
Trusts	76,192	74,337
Other	3,635	2,599
Total permanently restricted net assets	\$ 1,008,795	\$ 951,426

Blended Component Units

Condensed statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows for fiscal years ended June 30, 2015 and 2014 for RUMINCO, Ltd, a blended component unit of the University, are as follows:

Condensed statements of net position:	2015	2014
Current assets	\$ 653	\$ 648
Noncurrent assets	39,410	38,816
Total assets	40,063	39,464
Deferred outflows of resources		
Total assets & deferred outflows of resources	40,063	39,464
Current liabilities	1,145	1,615
Noncurrent liabilities	1,821	1,817
Total liabilities	2,966	3,432
Deferred inflows of resources		
Total liabilities & deferred inflows of resources	2,966	3,432
Unrestricted net position	\$ 37,097	\$ 36,032

Condensed statements of revenues, expenses, and changes in net position:	2015	2014
Operating revenues:		
Net underwriting income	\$ 1,635	\$ 589
Operating expenses	1,075	1,029
Operating income (loss)	560	(440)
Nonoperating revenues:		
Investment income, net	505	4,188
Increase in net position	1,065	3,748
Net position at beginning of year	36,032	32,284
Net position at end of year	\$ 37,097	\$ 36,032

Condensed statements of cash flows:	2015	2014
Net cash provided (used) by:		
Operating activities	\$ 541	\$ (360)
Investing activities	(270)	403
Net increase (decrease) in cash	271	43
Cash at beginning of year	110	67
Cash at end of year	\$ 381	\$ 110

Required Supplementary Information

- 77 Schedules of Funding Progress for Supplemental
Benefits Plan and Other Postemployment Benefits

Required Supplementary Information (RSI) (Unaudited)

Years ended June 30, 2015 and 2014 (in thousands)

Schedules of Funding Progress**Supplemental Benefits Plan (SBP)**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)—entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2014	\$ 1,721	\$ 1,754	\$ 33	98.12%	\$ 512	6.45%
7/1/2013	1,761	4,219	2,458	41.74%	558	440.50%
7/1/2012	1,883	4,672	2,789	40.30%	659	423.22%

*Additional information related to the SBP Plan is provided in Note 6.***Other Postemployment Benefits (OPEB)**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)—entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2015		\$ 91,276	\$ 91,276	0.00%	\$ 1,298,697	7.03%
7/1/2014		113,145	113,145	0.00%	1,252,154	9.04%
7/1/2013		94,555	94,555	0.00%	1,203,994	7.85%

Additional information related to OPEB is provided in Note 11.

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

Public Employee Police and Fire Fund (PEPFF)

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

State Employees Retirement Fund (SERF)

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

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

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

Public Employee Police and Fire Fund (PEPFF)

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

State Employees Retirement Fund (SERF)

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

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

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

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, 2015, 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 10, 2015. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the University's consolidated financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte & Touche LLP

November 10, 2015

University of Minnesota
Analysis of Consolidated Statements of Net Position
To Accompany June 30, 2015 Financial Statements
Excluding Component Units, in thousands

	2015	2014	Increase / (Decrease)		Explanation
			\$	%	
Assets:					
Current Assets:					
Cash & cash equivalents	183,451	243,049	(59,598)	-25%	Decrease in cash held in CEF, offset by increases in cash held at local banks (TIP)
Short-term investments	185,724	676	185,048	27374%	\$185.0 increase due to reclassification of 7 TIP investments with maturity dates in FY 2016 (from Noncurrent Investments to current Short term Investments)
Receivables, net	274,713	302,424	(27,711)	-9%	Decrease due to timing of payments related to student tuition (change in billing in cycle), federal appropriation, & sponsored billings, as well as a decrease in UMP & UMF billings
Inventories	22,895	22,519	376	2%	
Student loans receivable, net	10,623	9,899	724	7%	
Prepaid expenses	16,504	11,034	5,470	50%	Increase substantially due to prepaid subscriptions and renewals on software and library purchases
Other assets	205	376	(171)	-45%	
Total current assets	694,115	589,977	104,138	18%	
Noncurrent assets:					
Restricted cash and cash equivalents	148,276	66,888	81,388	122%	Increase in unspent bond proceeds
Investments	2,058,079	2,091,718	(33,639)	-2%	Decrease related to reclassification of investments to short-term and CEF unrealized losses, net of increase in CEF, GIP and TIP investment additions
Receivables, net	13,584	14,554	(970)	-7%	
Student loan receivables, net	58,860	57,145	1,715	3%	
Prepaid expenses	2,380	1,634	746	46%	
Capital assets, net	2,957,133	2,900,494	56,639	2%	Increase due to construction, including the Microbiology Research Facility & the Combined Heat and Power Plant
Total noncurrent assets	5,238,312	5,132,433	105,879	2%	
Total assets	5,932,427	5,722,410	210,017	4%	
Deferred Outflows of Resources	25,100	-	25,100	0%	Increase due to the implementation of GASB 68/71, net pension liability
Liabilities:					
Current liabilities:					
Accounts payable	140,114	131,403	8,711	7%	Increase substantially due to the timing of construction related invoices billed to the University
Accrued liabilities and other	259,912	244,389	15,523	6%	Increase due to vacation and payroll accruals primarily due to the annual 2.5% salary increase
Unearned income	73,561	68,527	5,034	7%	Increase substantially due to the timing of the receipt of Coca-Cola sponsorship contract monies and OTC intellectual property licensing agreement
Long-term debt	309,805	272,026	37,779	14%	Increase substantially due to issuance of Commercial Paper Notes Series E
Total current liabilities	783,392	716,345	67,047	9%	
Noncurrent Liabilities:					
Accrued liabilities and other	502,264	205,360	296,904	145%	Increase substantially due to recording of the University's net pension liability (GASB 68/71) & other post employment benefits liability (OPEB)
Unearned income	54	3,158	(3,104)	-98%	
Long-term debt	1,111,623	1,010,481	101,142	10%	Increase substantially due to the issuance of GO Bonds Series 2014B
Total noncurrent liabilities	1,613,941	1,218,999	394,942	32%	
Total liabilities	2,397,333	1,935,344	461,989	24%	
Deferred Inflows of Resources	368,220	-	368,220	0%	Increase due to the implementation of GASB 68/71, net pension liability
Net Position:					
Unrestricted	290,546	812,356	(521,810)	-64%	Decrease substantially due to the implementation of GASB 68/71, net pension liability
Restricted Expendable	927,440	1,004,191	(76,751)	-8%	Decrease primarily due to the implementation of GASB 68/71, net pension liability, offset with increases due to endowment related activity
Nonexpendable	297,469	289,366	8,103	3%	
Net investment in capital assets	1,676,519	1,681,153	(4,634)	0%	
Total net position	3,191,974	3,787,066	(595,092)	-16%	

University of Minnesota
Analysis of Consolidated Statements of Revenues, Expenses and Changes in Net Position
To Accompany June 30, 2015 Financial Statements
Excluding Component Units, in thousands

	2015	2014	Increase / (Decrease)		Explanation
			\$	%	
Revenues:					
Operating revenues:					
Student tuition and fees, net of scholarship allowances	740,540	732,821	7,719	1%	
Federal grants and contracts	464,751	480,177	(15,426)	-3%	Decrease related to ARRA projects ending, as well as timing of project spend & related billings
State and other government grants	59,566	63,848	(4,282)	-7%	
Nongovernmental grants and contracts	348,103	292,794	55,309	19%	Increase primarily related to change in recording of UMF payroll reimbursement & UMP clinical transfers to Medical School
Student loan interest income	1,838	1,831	7	0%	
Sales and services of educational activities, net of scholarship allowances	141,501	145,303	(3,802)	-3%	
Auxiliary enterprises, net of scholarship allowances	399,256	376,449	22,807	6%	Increase primarily related to Vikings football contract activity for TCF Bank Stadium & increase in revenue sharing from the Big 10
Other operating revenues	99	137	(38)	-28%	
Total operating revenues	2,155,654	2,093,360	62,294	3%	
Expenses					
Operating expenses:					
Education and general:					
Instruction	770,325	769,479	846	0%	
Research	700,208	679,718	20,490	3%	\$14.8m - Increase due to annual 2.5% salary increase; \$ 7.0m - Increase in non-capitalized fabrication expenses
Public service	248,451	253,141	(4,690)	-2%	
Academic support	366,992	394,927	(27,935)	-7%	Large driver of decrease is due to implementation of GASB 68/71, net pension liability (reduction in fringe due to change in net pension liability & FY15 contributions)
Student services	116,016	116,575	(559)	0%	
Institutional support	243,153	256,641	(13,488)	-5%	Decrease primarily related to the implementation of GASB 68/71, net pension liability, offset by noncapitalized ESUP costs in FY15
Operation and maintenance of plant	276,783	285,938	(9,155)	-3%	Decrease primarily related to timing of completed buildings coming on line, and non-capital furnishings purchases
Scholarships and fellowships	57,879	54,519	3,360	6%	
Depreciation	218,565	192,705	25,860	13%	Increase primarily related to asset additions, amortization of ESUP capitalized costs, and impact of corrections to depreciation estimates
Auxiliary enterprises	256,271	256,068	203	0%	
Other operating expenses, net	93	583	(490)	-84%	
Total operating expenses	3,254,736	3,260,294	(5,558)	0%	
Operating Loss	(1,099,082)	(1,166,934)	67,852	-6%	
Nonoperating Revenues (Expenses)					
Federal appropriations	18,192	19,072	(880)	-5%	
State appropriations	642,069	614,791	27,278	4%	Increase in funding from State
Grants	187,749	200,895	(13,146)	-7%	Decrease substantially due to a shift in UMP related billings recorded as clinical transfers (operating revenue) versus academic transfers (non-operating revenue) determined by faculty time and efforts
Gifts	182,348	197,172	(14,824)	-8%	Decrease substantially related to a change in recording of UMF payroll reimbursement, offset by an overall increase in UMF gifts
Investment income, net	82,078	234,407	(152,329)	-65%	Decrease substantially related to a decrease in CEF fair market value
Interest on capital-asset related debt	(45,310)	(45,637)	327	-1%	
Other nonoperating revenues (expenses), net	25,111	(1,920)	27,031	-1408%	Increase substantially related to two one-time legal settlements
Net nonoperating revenues	1,092,237	1,218,780	(126,543)	-10%	
Income Before Other Revenues	(6,845)	51,846	(58,691)	-113%	
Capital appropriations	59,714	83,081	(23,367)	-28%	Decrease related to timing of project spend & availability of monies for State capital funded projects
Capital grants and gifts	19,246	22,929	(3,683)	-16%	
Additions to permanent endowments	15,338	11,428	3,910	34%	
Total other revenues	94,298	117,438	(23,140)	-20%	
Increase In Net Position	87,453	169,284	(81,831)	-48%	
Cumulative effect of change in accounting principle	(682,545)	-	(682,545)	0%	Decrease due to the implementation of GASB 68/71, net pension liability
Net position at beginning of year	3,787,066	3,617,782	169,284	5%	
Net position at end of year	3,191,974	3,787,066	(595,092)	-16%	

University of Minnesota
Summary of Impact of GASB Statements 68 & 71

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

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

These two standards together collectively set new accounting and financial reporting requirements for employer pension plans administered through trusts or equivalent arrangements. The University is impacted by these two standards due to its participation in the State Employees Retirement Fund (SERF), and the Public Employee Police and Fire Fund (PEPFF) which are managed by the Minnesota State Retirement System (MSRS) and the Public Employees Retirement Association (PERA), respectively—both of which are cost-sharing multiple-employer pension plans. As such, the University has included its proportionate share of the total long-term liability for benefits in its statement of net position and statement of revenues, expenses, and changes in net position for the fiscal year ending June 30, 2015.

According to the SERF portion and PEPFF portion of the MSRS and PERA 2014 Comprehensive Annual Financial Reports as of June 30, 2014, respectively, an actuarial calculation of the combined Net Pension Liability (NPL) of \$2.7 billion was recorded. The University's proportionate share of the combined NPL is approximately \$266.5 million. In addition, GASB 68 requires the reporting of changes in actuarial assumptions and other actuarial factors to be categorized as deferred inflows of resources or deferred outflows of resources, both of which are to be amortized over a five-year period. Also, due to the actuarial valuation measurement date being July 1, 2014, GASB 71 requires any subsequent contributions related to fiscal year 2015 be recorded as a deferred outflow of resources, which are not amortized. Currently, the estimated deferred outflows of resources to be recorded in the University's financial statements are approximately \$23.0 million and the estimated deferred inflows of resources are approximately \$368.2 million. The University recorded a cumulative effect of the change in accounting principle of \$682.5 million against net position in 2015.

MSRS' employer and employee contribution rates (based on "covered payroll") for SERF are currently 5.5% for both employer and employee, and PERA's contribution rates for PEPFF are 16.2% for employer and 10.8% for employee, respectively. Contribution rates are set by the Minnesota State Legislature, not by GASB. Therefore, the University's adoption of GASB 68 & 71 will have no direct impact on changes to plan documents, the legal obligation to fund the plans through employer and employee contributions, or the payment of participant benefits. Any additional cash flow impacts would be a direct result of the Legislature making future changes to the contribution rates associated with the plans.

Fiscal Year 2015 Annual Financial Report

Michael Volna
Associate Vice President, Finance & Controller



UNIVERSITY OF MINNESOTA

Driven to DiscoverSM

FY 2015 Highlights

- Net position (net assets) decreased by \$595.1 million, due primarily to the implementation of GASB 68 / 71 (new pension standards).
- Net operating loss decreased \$67.8 million.
- Non-operating revenues decreased \$126.9 million.
- FY 2015 positive cash flows of \$21.8 million was a decrease of \$7.1 million from FY 2014.
- Adoption of new GASB pension standards resulted in significant impact to the financial statements.

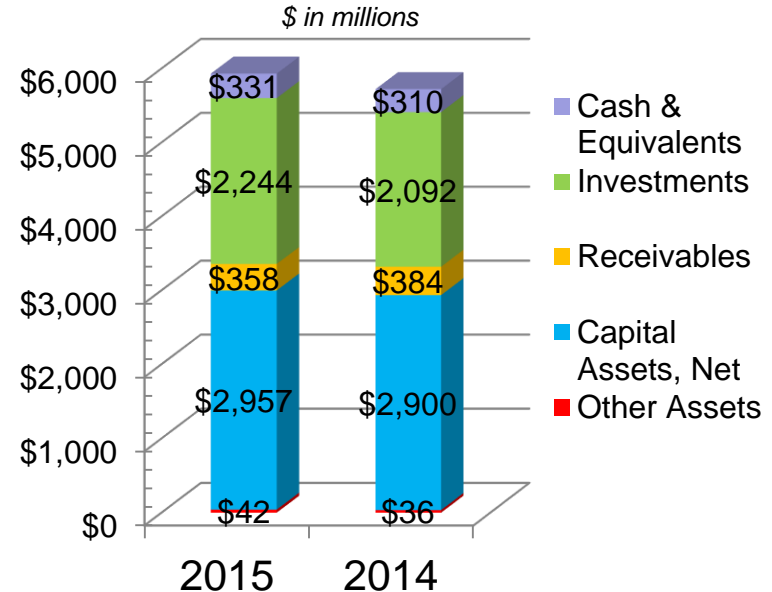
Overview of Statement of Net Position

\$ in Millions	<u>2015</u>	<u>2014</u>
Current Assets	\$ 694.1	\$ 590.0
Noncurrent Assets	<u>5,238.3</u>	5,132.4
Total Assets	<u>5,932.4</u>	<u>5,722.4</u>
Deferred Outflows	25.1	0.0
Current Liabilities	783.4	716.3
Noncurrent Liabilities	<u>1,613.9</u>	<u>1,219.0</u>
Total Liabilities	<u>2,397.3</u>	<u>1,935.3</u>
Deferred Inflows	368.2	0.0
Net Position	<u>\$ 3,192.0</u>	<u>\$ 3,787.1</u>

Net Position – Overview of Assets

2015 versus 2014

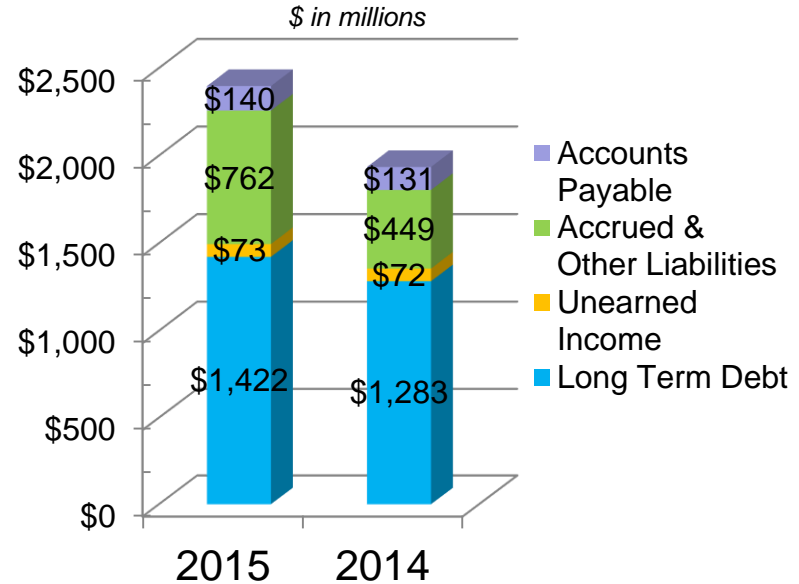
- Total University assets increased by \$210 million or 3.7%.
- Cash & equivalents increase of \$23 million due to increases in unspent bond proceeds partially offset by decreases in cash held in investments.
- Investments increased \$151 million due to increases in both CEF market value and TIP investment activity.
- Capital assets (net) increased \$57 million due to increased spending on construction projects, specifically the Microbiology Research Facility and the Combined Heat and Power Plant.



Net Position – Overview of Liabilities

2015 versus 2014

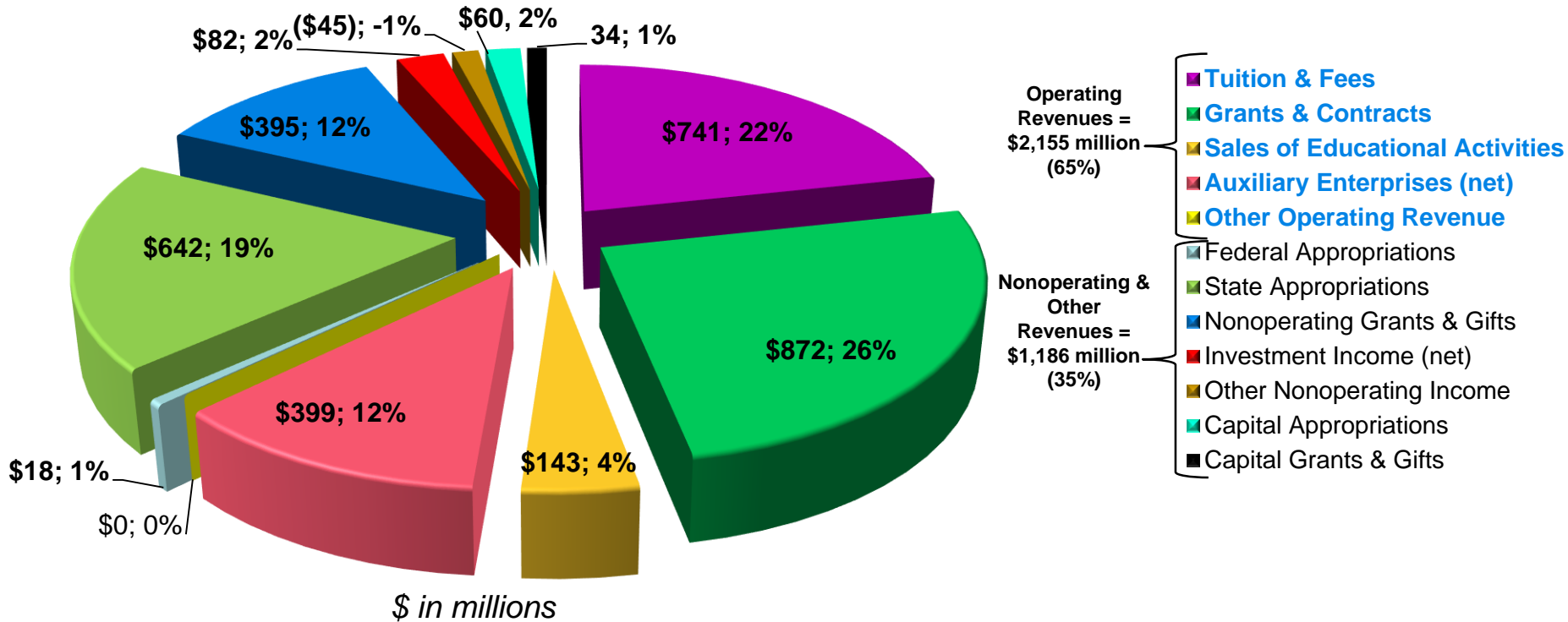
- Total University liabilities increased by \$462 million or 23.9%.
- Increase in accrued & other liabilities of \$312 million due to recording net pension liability of \$267 million as a result of GASB 68 & 71.
- Long-term debt increased \$139 million due to issuance of 2014B and Commercial paper Series E, partially offset by debt service payments.



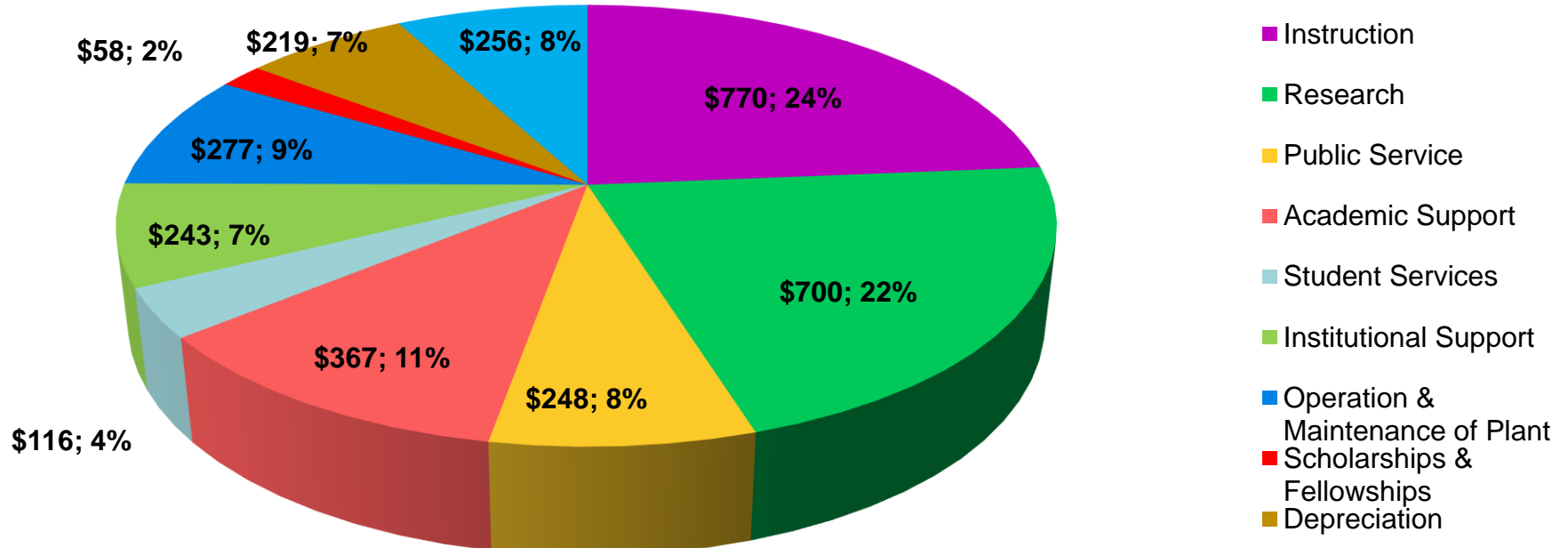
Overview of Revenues, Expenses, and Changes in Net Position

\$ in Millions	<u>2015</u>	<u>2014</u>
Total Operating Revenues	\$2,155.6	\$2,093.4
Total Operating Expenses	<u>3,254.7</u>	<u>3,260.3</u>
Net Operating Loss	(1,099.1)	(1,166.9)
Net Non-Operating Revenues	1,092.2	1,218.8
Other Revenues	<u>94.3</u>	<u>117.4</u>
Increase in Net Position	<u>\$ 87.5</u>	<u>\$ 169.3</u>
Cumulative effect of change in accounting principle (GASB 68 impact – recorded in fund balance)	(682.5)	0 111 of 200

FY 2015 Total Revenues – \$3.4 Billion



FY 2015 Total Operating Expenses – \$3.3 Billion

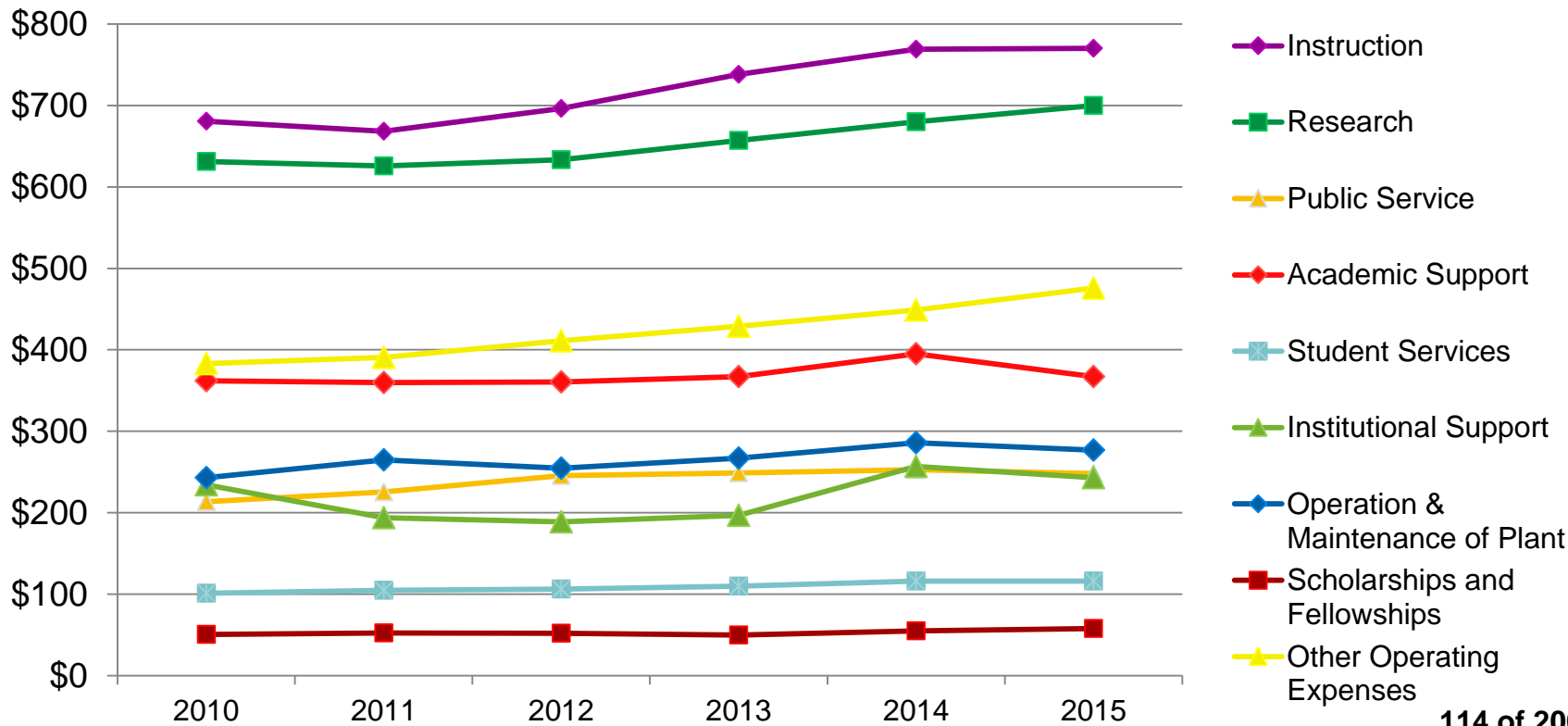


\$ in millions

Operating Expense Trends – Functional Classification

Fiscal Years 2010 – 2015

(Audited amounts; \$ in millions)



Cash Flows

FY 2015 versus FY 2014

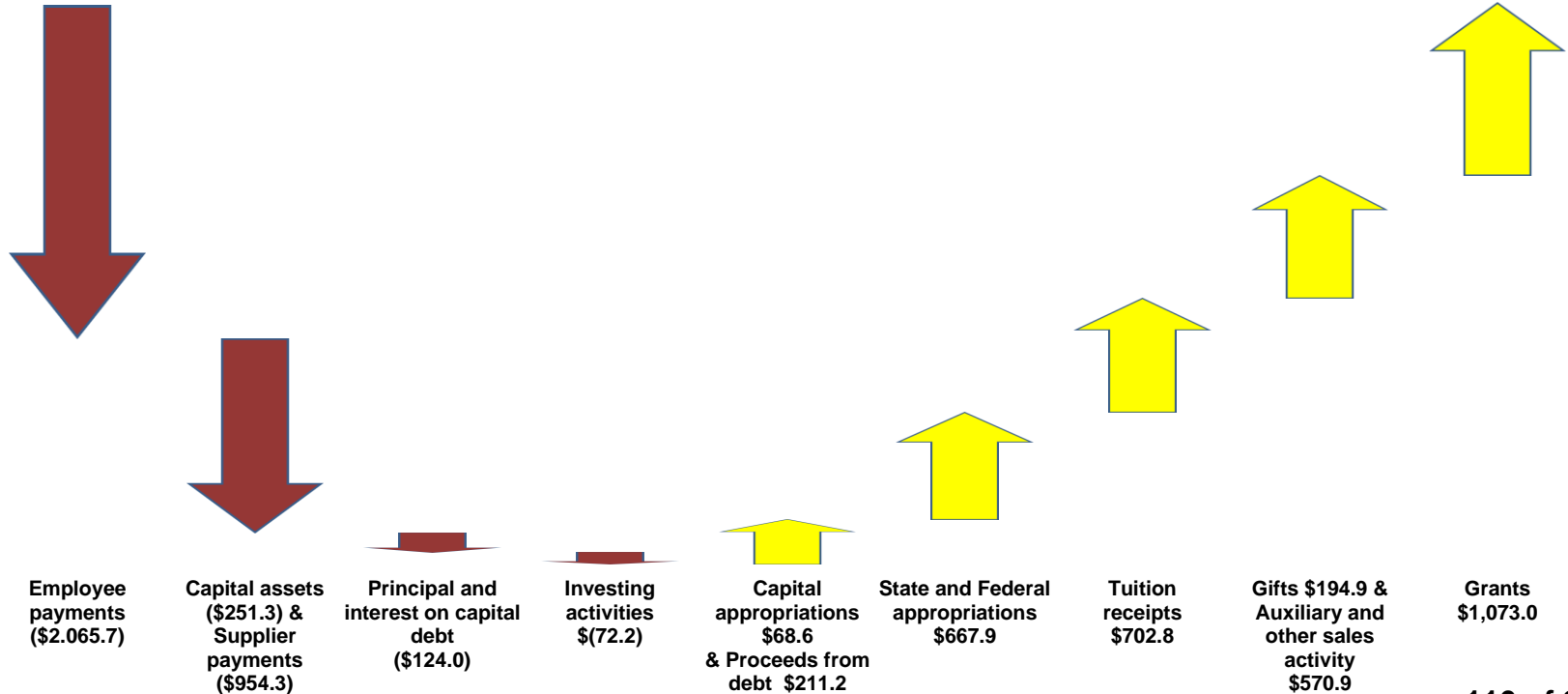
(\$ in thousands)	2015	2014
<u>Net cash provided (used) by:</u>		
Operating activities	(\$891,340)	(\$924,284)
Noncapital financing activities	1,079,210	1,038,968
Capital and related financing	(\$93,844)	(\$204,533)
Investing activities	<u>(72,236)</u>	<u>118,775</u>
Net increase in cash & cash equivalents	\$21,790	\$28,926
Beginning cash & cash equivalents	<u>\$309,937</u>	<u>\$281,011</u>
Ending cash & equivalents	<u>\$331,727</u>	<u>\$309,937</u>

Cash Flows, Fiscal Year 2015

6/30/2014
\$309.9

(\$ in millions)

6/30/2015
\$331.7



University's Component Units

Blended Component Units

- RUMINCO, Ltd.
- UMORE Development, LLC

Joint Ventures

- 2407 University Investment, LLC

Discretely presented Component Units

- University of Minnesota Foundation (UMF)
- University of Minnesota Physicians (UMP)

Discretely Presented Component Unit Overview FY 2015

(\$ in millions)

	UMF	UMP
Total Assets	\$2,819.7	\$ 186.8
Total Liabilities	<u>378.9</u>	<u>70.2</u>
Net Assets	2,440.8	116.6
Total Revenues	388.6	479.6
Total Expenses	<u>246.3</u>	<u>469.3</u>
Increase (Decrease) in Net Assets	\$ 142.3	\$ 10.3

New Accounting Standard: GASB 68

- Adopted by GASB in 2012; effective FY 2015
- Intended to improve financial reporting for public pensions by:
 - Providing a broader picture of the activity and expected liabilities applicable to public pensions
 - Create more consistency among all employers associated with pension transactions

GASB 68 Applicability

- Multi-employer, cost sharing, defined benefit pension plans, with the following characteristics:
 - Contributions, and earnings on contributions, are irrevocable
 - Plan assets are dedicated to pension benefits
 - Plan assets are legally protected from creditors of employers, plan administrators, plan members

Impacted University Retirement Plans

Defined Benefit Plans

- ✓ Public Employee Police and Fire Fund (PEPFF - PERA)
- ✓ State Employees' Retirement Fund (SERF - MSRS)
- ✗ Federal retirement plans – CSRS, CSRS Offset, FERS
- ✗ Single employer plan – U of M Supplemental Benefit Plan

Defined Contribution Plans

- ✗ Faculty Retirement Plan
- ✗ Optional Retirement Plan
- ✗ 457 Deferred Compensation Plan
- ✗ 415(m) Retirement Plan

✓ GASB 68 applicable

✗ Not applicable/immaterial

FY 15 Financial Statement Impact

Net Position

- \$25.1 million deferred outflows (FY 15 adjustments) ↑
- \$266.5 million net pension liability ↑
- \$368.2 million deferred inflows ↑
- Total decrease in Net Position \$609.6 million ↓

Expenses

- \$72.9 million in FY 15 operating expenses (timing adjustments) ↓
- \$682.5 million nonoperating expenses (“change in accounting principle”) ↑
- Net expense increase \$609.6 million ↑

Questions



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BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Fully Allocated Cost of Mission Activities: Update

Review **Review + Action** **Action** **Discussion**

This is a report required by Board policy.

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Julie Tonneson, Associate Vice President & Budget Director
Lincoln Kallsen, Director of Institutional Analysis

PURPOSE & KEY POINTS

This item will review the purpose of the Fully Allocated Cost of Mission Activities analysis, the methodology and results, and planned next steps. The information is the result of an analysis on the cost of mission activities at the University by the Budget Office and the Office of Institutional Research based on FY 2014 financial data. It is the second time this analysis has been prepared (the first was based on FY 2010 financial data).

Prior to 2000, the University prepared an instructional cost study that identified how much the institution was spending on the direct costs of instruction and associated overhead. Before the FY 2010 analysis, it had never conducted a study of the fully allocated cost of each of the mission activities. This study will show how much the University spent on the direct costs of instruction, research, public service, auxiliary operations and student aid. It will show the full allocation of indirect/overhead costs associated with each of those activities, and will identify the unique funding sources for each. All data is based on FY 2014 financial activity and ties to the general ledger.

As a second-level analysis, the presentation will outline how much the University spent in FY 2014 to instruct an undergraduate student, a graduate student and a professional student, using University averages.

This analysis was completed originally as a result of questions from the Board of Regents and University leadership. In part, the purpose of the study has been to better understand the flow of costs and revenues, and how they relate to the stated mission of the University. The results must be considered within the context of research universities and the individual practices and cultures of the academic disciplines. The data brings to light different pedagogies for the delivery of instruction, different emphases within units on the mission activities, the interplay between sponsored research and the other funding sources for research, and the impact of other differences.

The presentation will attempt to outline variables that should be considered to understand these results in a meaningful way.

BACKGROUND INFORMATION

The Board of Regents discussed the methodology for this study in December 2011 and reviewed the results of the FY 2010 analysis in June 2012.

Fully Allocated Cost of Mission Activities: Update

Julie Tonneson, Associate Vice President
Lincoln Kallsen, Director



UNIVERSITY OF MINNESOTA

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Purpose

- Answer questions relating to what the University spends in educating undergraduate, graduate and professional students
- Provide information and analysis to the administration to better understand cost drivers throughout the University
- Understand more fully the wide variety of revenue sources that support all of our missions
- Provide a baseline for future study – potentially valuable as a self-comparison over time, particularly at unit level
- Develop information for management decisions and policy development

Study Principles

- Uses an all-funds, full cost and revenue approach
- Incorporates both direct and indirect/support costs of mission activities, plus auxiliary operations and student aid
- Ties to the general ledger
- Allows analysis at system level and campus/collegiate (RRC) level
- Is replicable in future years

Study Audience

Management data for use by academic leadership

Study Organization

- Fiscal Year 2014 (July 1, 2013 – June 30, 2014)
- Organized by mission through the use of function codes
 - **Instruction**
 - **Research**
 - **Public Service**
 - Auxiliaries
 - Student Aid
- Relies on “chart string” level data, summed to the campus/collegiate/RRC level
 - Every account at the University has a function code
 - Function codes are required by federal government for various reporting purposes
- Relies on Budget Model Cost Pool Allocations for allocation of some support costs

Fully allocated costs of missions - conceptual

Faculty compensation
Teaching assistants

Scientists
Sponsored research

Extension services
Clinical trials

Advisors
Registrar

Dean's Offices
Libraries

President's Office
General Counsel

Utilities
Repair & Maintenance

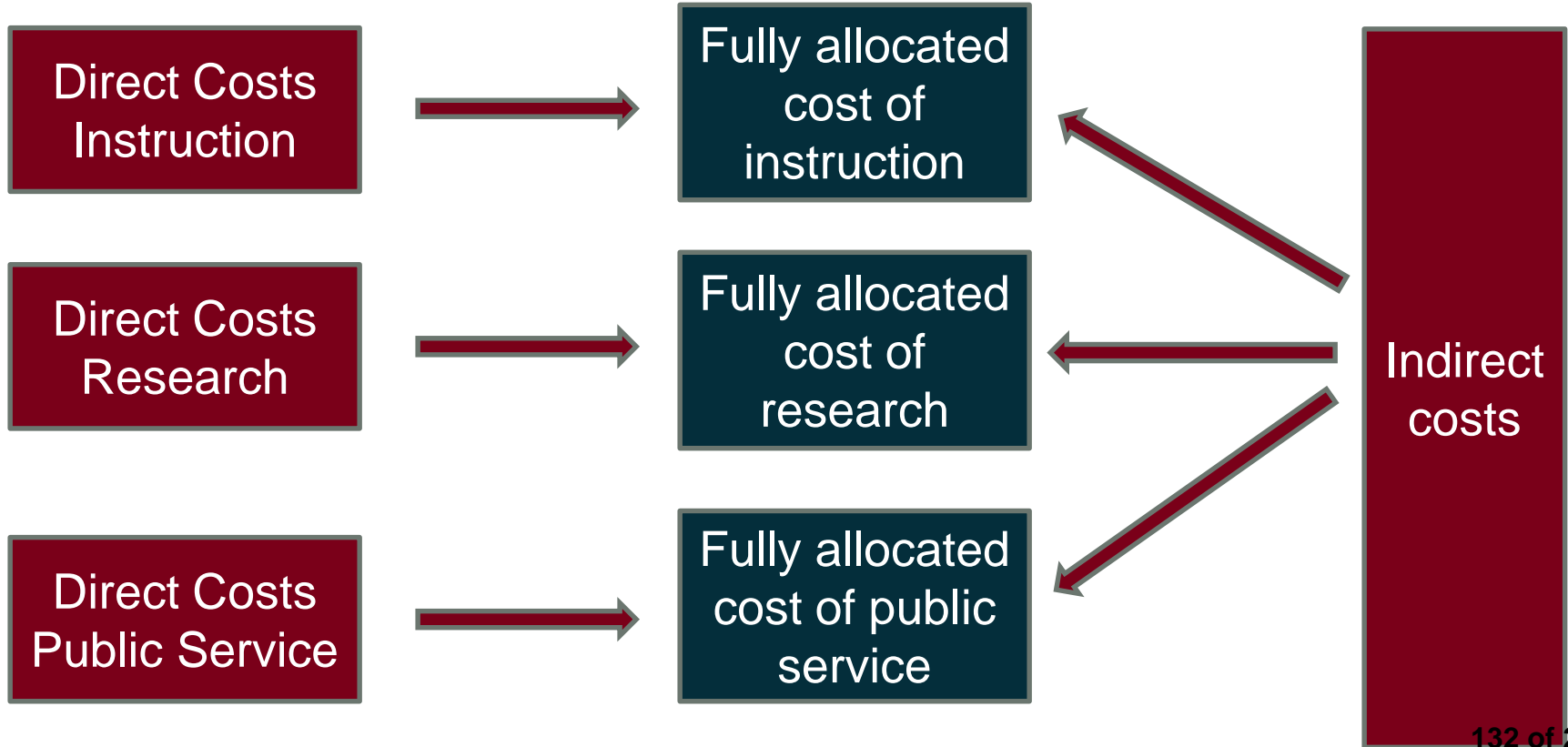
Mission Direct
Costs
Instruction
Research
Public Service



Indirect (Support)
Costs
Student Services
Academic Support
Institutional Support
Physical Plant

Fully Allocated
Costs

Fully allocated costs - conceptual



9 Primary Cost Allocation Pools

Facilities Operations and Maintenance



Custodial, Waste, Landcare, R&R, Maintenance, BSAC

Utilities



Steam, Gas, Electricity, Chilled Water

Debt & Leases



Actual cost of Debt Service and Leases by Building

Information Technology



Internet, E-mail, Voice Serv, File Storage, PeopleSoft, etc.

Support Service Units



HR, Controller, U Relations, Gen Cnsl, Pub Safety, etc.

Libraries



Twin Cities Libraries, excluding the Law Library

Student Services



Student Finance, Honors, Aid, Admissions, Grad Sch., etc.

General Purpose Classrooms



Office of Classroom Management

Research



OVPR, Sponsored Financial Reporting, U Hlth&Safety

Indirect costs

Indirect costs also commonly found within campuses or colleges

Institutional Support

Chancellor's offices

System campus business offices

Campus security

Academic Support

Dean's offices

Course and curriculum development

Fundraising and alumni relations

Museums and galleries

College specific libraries

Student Services

Advisors and counselors

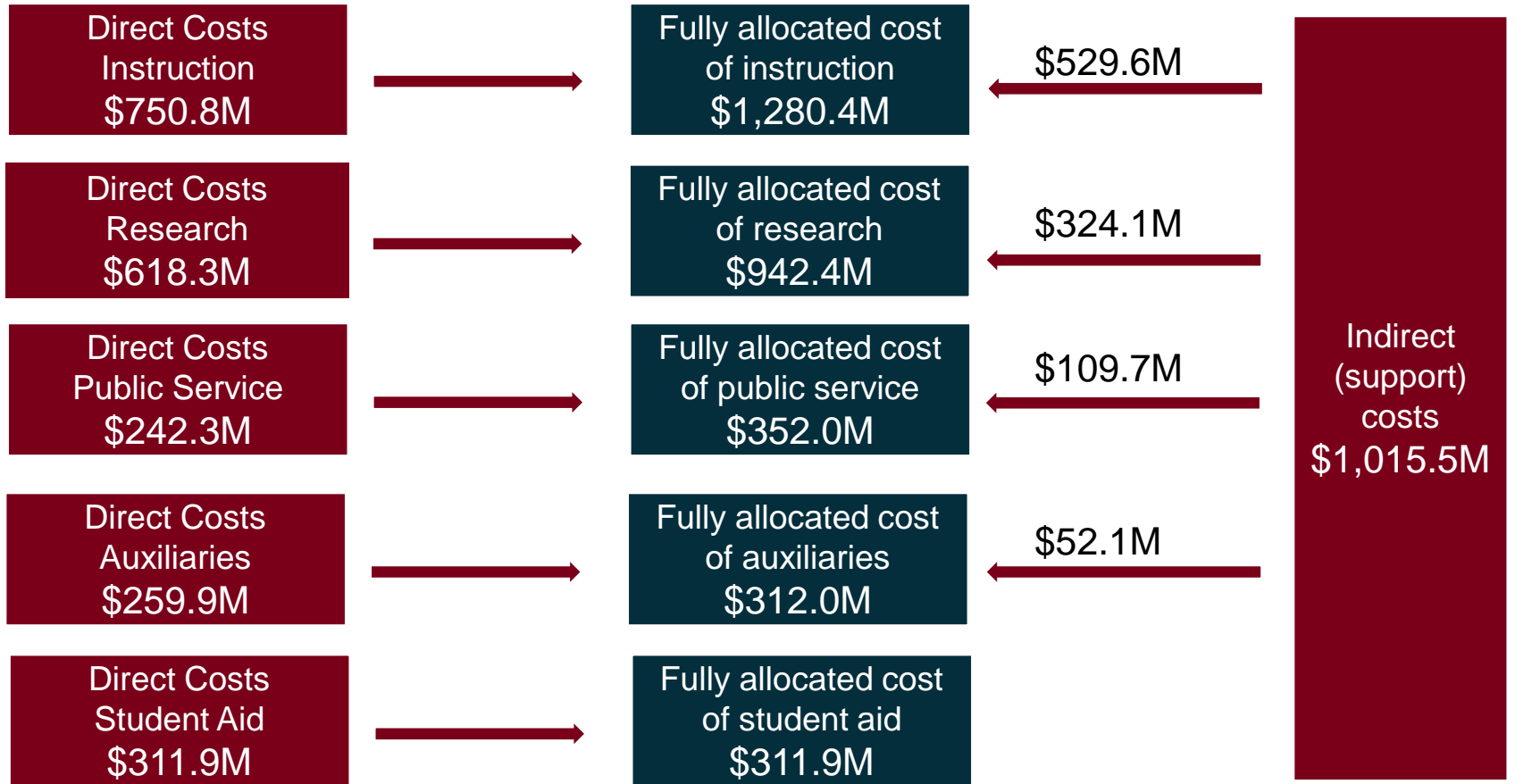
Career centers

Recruitment and admissions

Student organizations



Fully allocated costs— FY14 results



\$2,183.2M Total Direct

\$3,198.7M Total

Allocation of Revenues

Direct Costs
Instruction
Research
Public Service

+ **=**

Indirect Costs
Student Services
Academic Support
Institutional Support
Physical Plant

Fully Allocated Costs



Fully Allocated Revenue

Revenue Sources

- Tuition
- State Appropriation
- Gifts
- Clinical Income
- Sponsored Funding
- Etc.

That support the direct and indirect costs – tracked in the financial system

Allocated to mission activities in the same way costs are allocated

Revenue Allocation: Decision Rule

Tuition and O&M Appropriation

- Revenues are co-mingled as general “O&M” at department level where spending occurs
- To report separately, then, a decision needed to be made on the split between them wherever “O&M” revenue supports spending
- Decision Rule = For Student Aid – of the \$123m of O&M supporting student aid in FY14, the state appropriation portion will represent the centrally supported aid programs (\$57m), and the balance will be tuition (\$66m)
- Decision Rule = The remainder of **Tuition** supports instruction first, (up to total O&M support of instruction) then supports indirect costs of research and public service

Mission-based revenue and costs

- Research
- Public Service
- Auxiliaries
- Student Aid
- Instruction

Total Research Spending FY14 - \$942.4 Million

\$618.3 million – “direct costs” – spending coded with the Research Function Code

Examples: salary and fringe of graduate students and principal investigators working on a grant

\$324.1 million – “indirect costs” – spending coded with other function codes - allocated to Research through our methodology

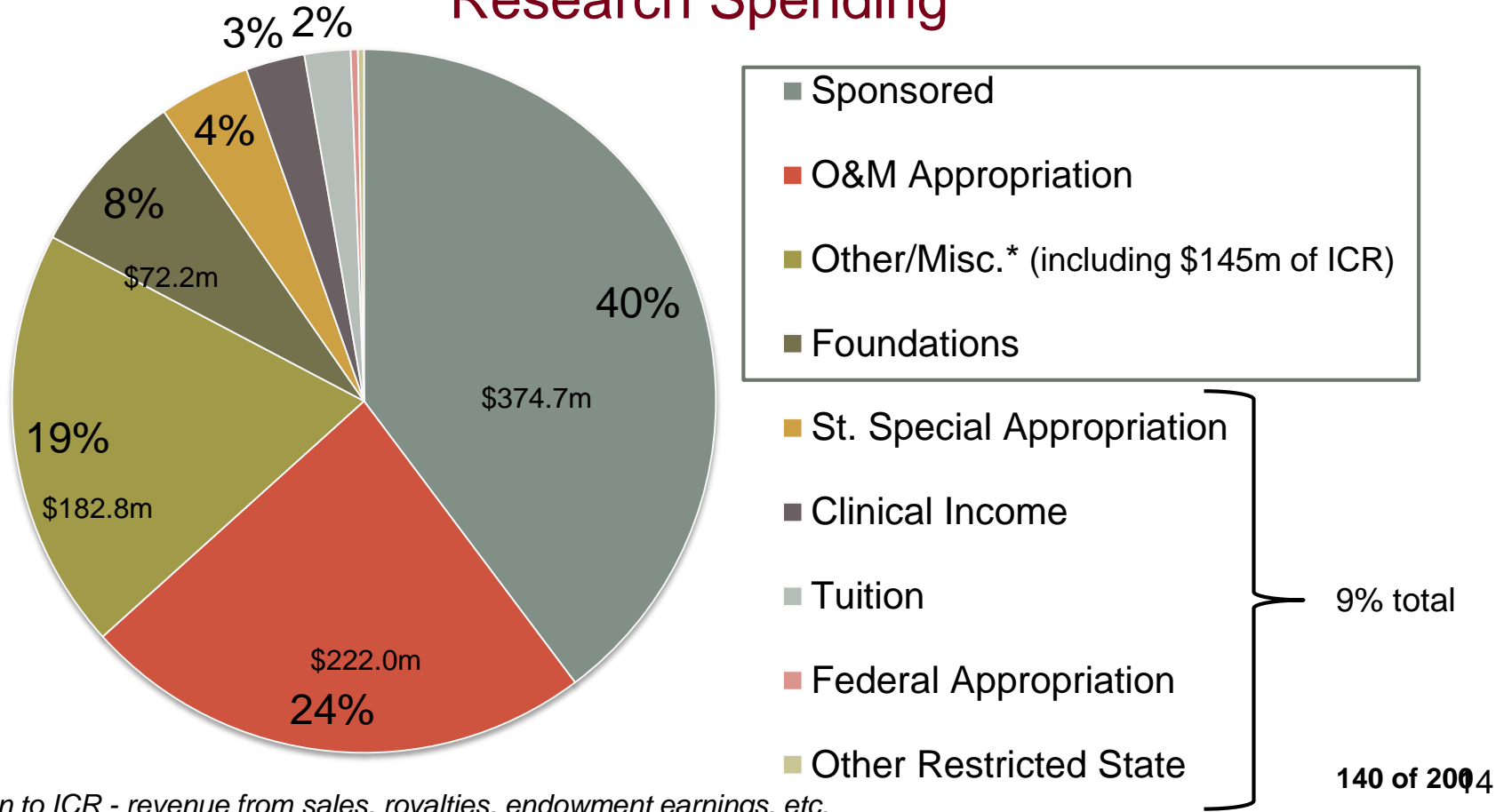
Examples: portion of Deans’ Offices, portion of Chancellor’s Office; VP for Research, Sponsored Financial Reporting, lab facility costs, etc.

\$942.4 million - Total

Of the \$618.3 Million of Direct Costs:

- \$528.2 million was in Twin Cities Colleges
- \$20.8 million was in the System Campuses
- \$69.3 million was in Other Units (MN Extension, AES, Institution-Wide Centers etc.)

Revenues Supporting the \$942.4 Million of Research Spending



Total Public Service Spending FY14 - \$352.0 Million

\$242.3 million – “direct costs” – spending coded with the Pub Serv. Function Code

Examples: MN Extension Service, VDL,
grants with a specific public benefit intent, etc.

\$109.7 million – “indirect costs” – spending coded with other function codes -
allocated to Pub Serv. through our methodology

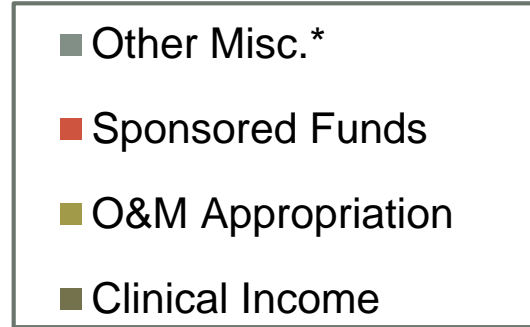
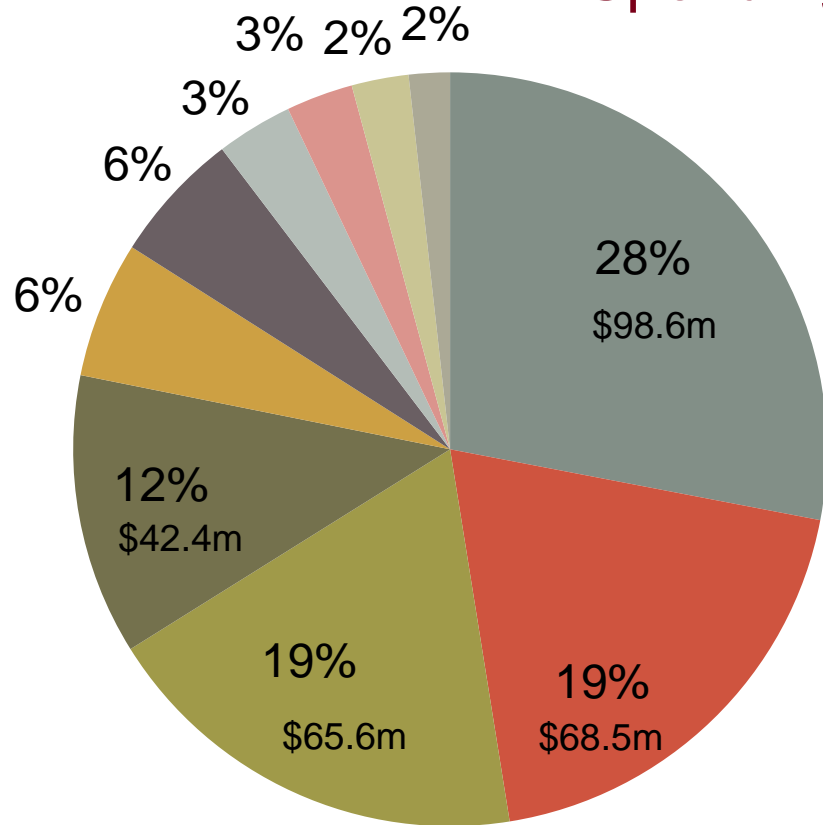
Examples: portion of Deans’ Offices, portion of
President’s Office; portion of Controller, facility costs, etc.

\$352.0 million - Total

Of the \$242.3 Million of Direct Costs:

- \$125.3 million was in Twin Cities Colleges
- \$9.2 million was in the System Campuses
- \$107.8 million was in Other Units (MN Extension, University Libraries,
Institution-Wide Centers etc.)

Revenues Supporting the \$352 Million of Public Service Spending



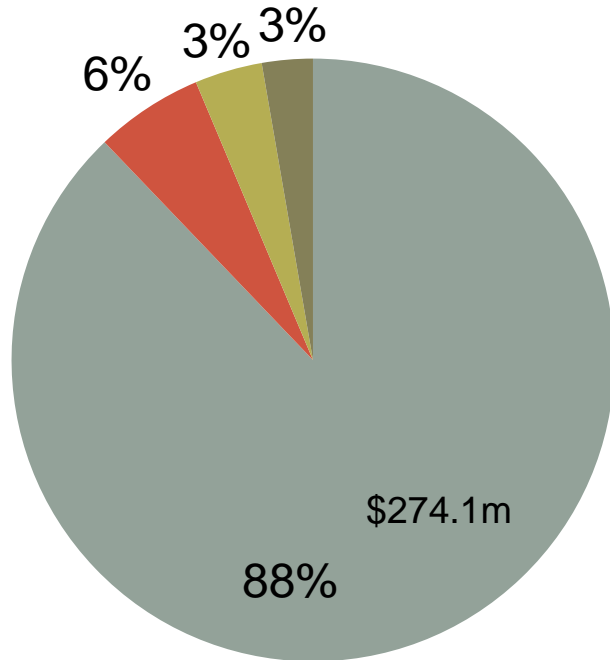
- Foundations
- St. Special Appropriations
- Other Restricted State
- Federal Appropriations
- Other Government
- All Other (Tuition, Foundations, Business & Industry)

*Includes revenue from sales, royalties, endowment earnings, etc.

Total Auxiliary Spending FY14 –\$312.0 Million

Examples: Intercollegiate Athletics
Book Stores

Housing/Dining Services
Parking



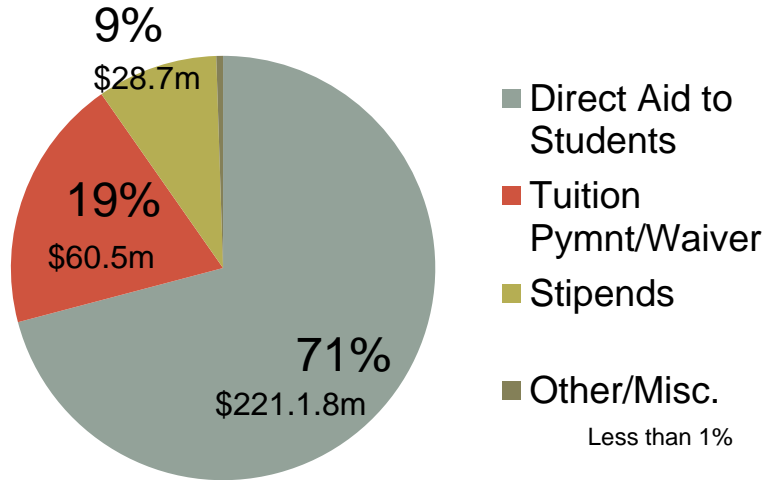
Revenues Supporting Auxiliary Spending

- Auxiliary Sales
- O&M Appropriation
- Foundations
- Other/Misc.*

- *Includes revenue from sales, royalties, fees, endowment earnings, etc.*

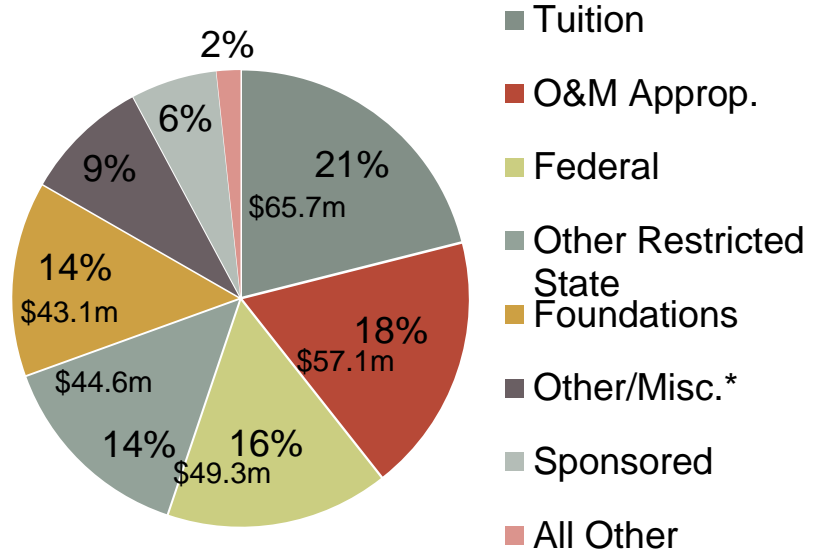
Total Student Aid Spending FY14 –\$311.9 Million

Types of Aid



Direct Aid to Students = Fellowships, Grants and Scholarships
Tuition Payment/Waivers = Depts. Charged for Tuition
Stipends = to Trainees, Research Assistants, Fellows, etc.
Other = (examples) Awards to non-degree students, travel awards, cash prizes

Revenue Sources



Other Rest. State = ARRA, St. Grant Prog., Work Study
Federal = PEL, SEOG
Sponsored = to Research Assistants
Other = Athletic Scholarships, Local Gov't Scholarships

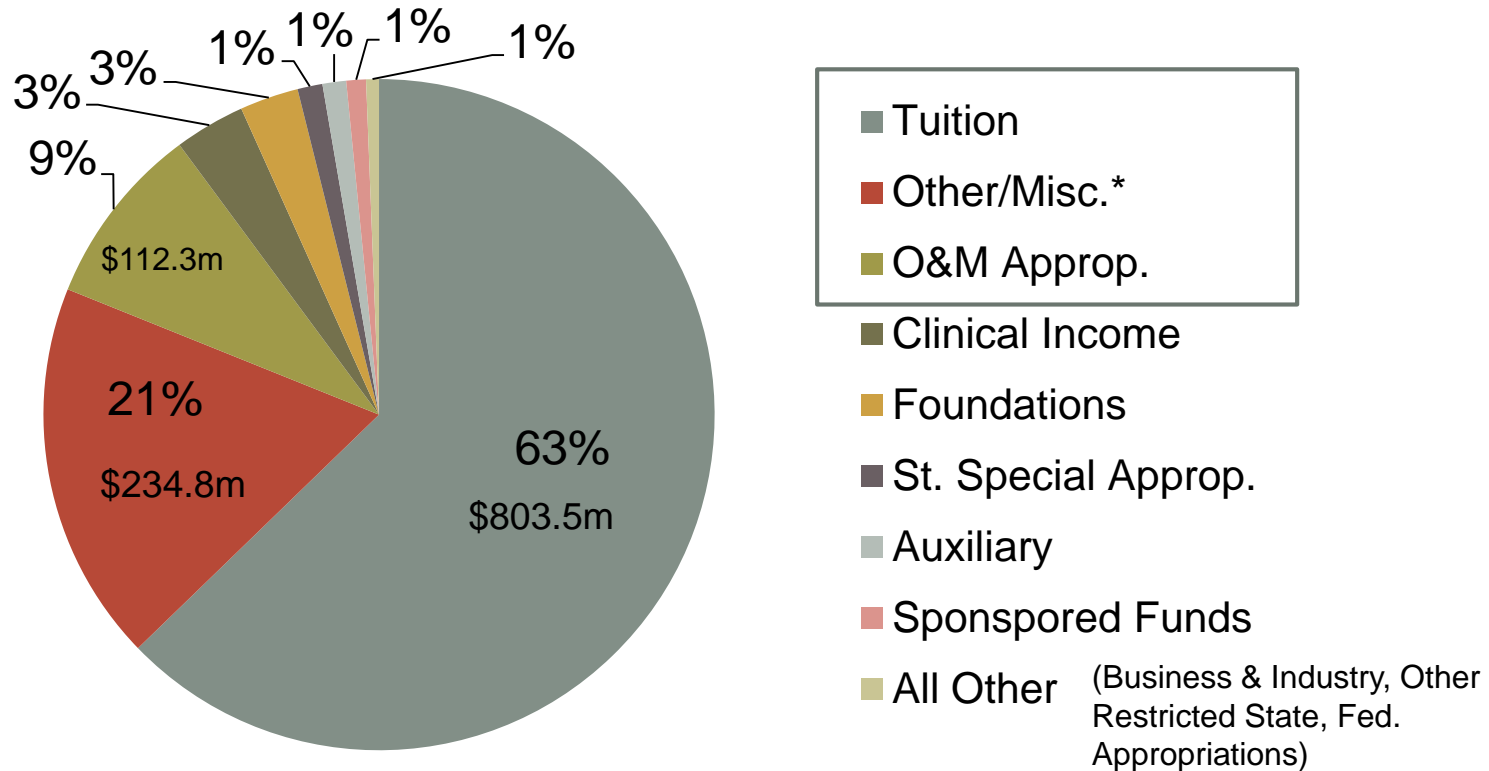
Total Instruction Spending FY14 - \$1,280.4 Million

- \$750.8 million – “direct costs” – spending coded with the Instruction Function Code
Examples: salary and fringe for instructional faculty, supplies and materials, teaching assistants, etc.
- \$529.6 million – “indirect costs” – spending coded with other function codes - allocated to Instruction through our methodology
Examples: portion of Deans’ Offices, portion of President’s Office; portion of Controller, facility costs, etc.
-
- \$1,280.4 million - Total

Of the \$750.8 Million of Direct Costs:

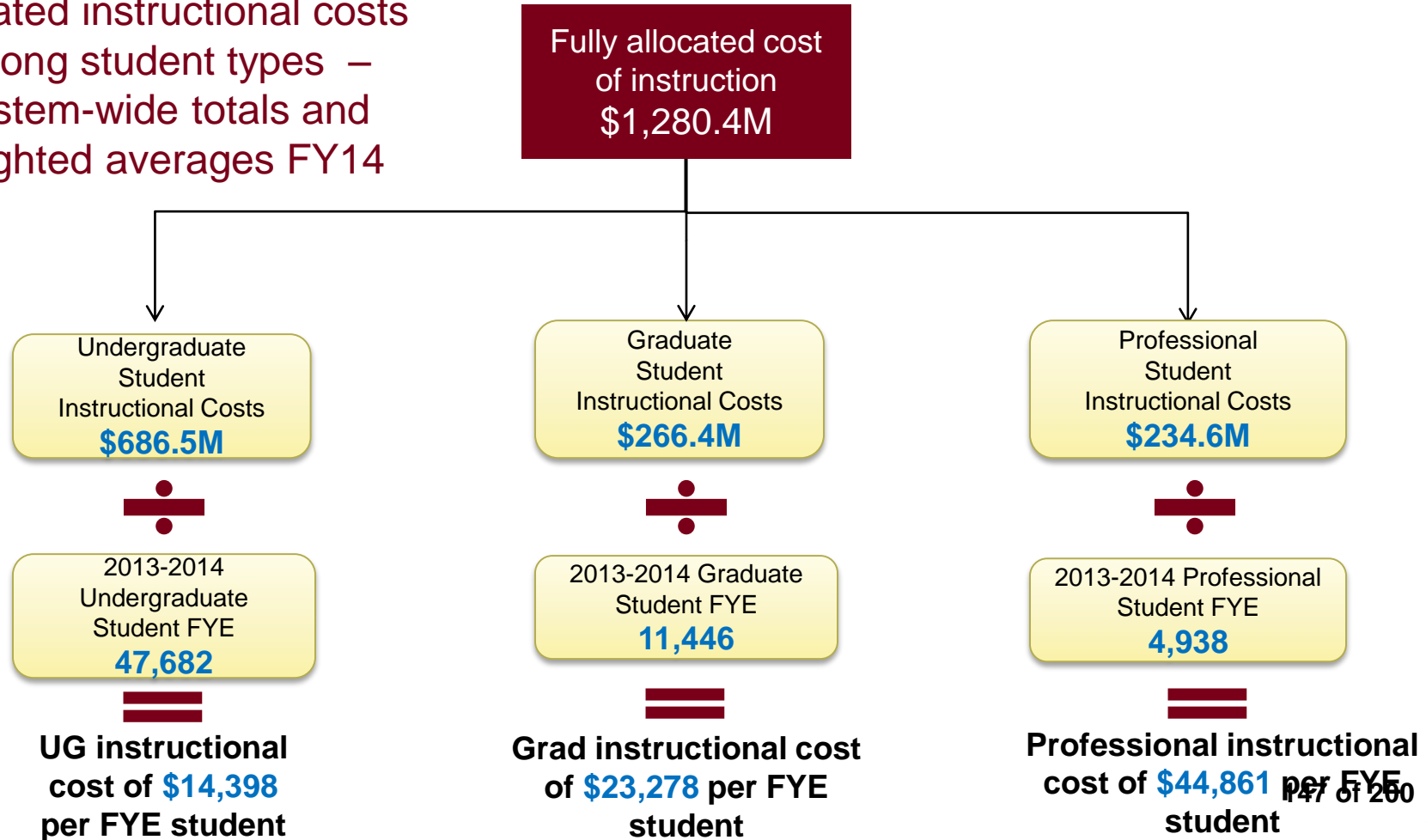
- \$650.8 million was in Twin Cities Colleges
- \$92.1 million was in the System Campuses
- \$7.9 million was in Other Units (primarily Institution-Wide Centers)

Revenues Supporting the \$1,280.4 Million of Instruction Spending



* Includes revenue from sales, royalties, fees, endowment earnings, etc.

Methodology: Distributing fully allocated instructional costs among student types – System-wide totals and weighted averages FY14



FY14 Compared to FY10 – Total Spending by Category (unadjusted for inflation - \$ in 000s)

	Instruction	Research	Pub Serv.	Auxiliaries	Student Aid
2014	\$1,280.4	\$942.4	\$352.0	\$312.0	\$311.9
2010	\$1,121.6	\$870.8	\$304.6	\$251.8	\$299.1
Change	\$158.8	\$71.6	\$47.4	\$60.2	\$12.8
% Change	14%	8%	16%	24%	4%

FY14 Compared to FY10 – Spending on Undergraduate Instruction and per Student

	Total	Per Student	TC Tuition	Spend Over Tuition	Spend Over Tuition - %
2014	\$686,000,000	\$14,398	\$12,060	\$2,338	19%
2010	\$560,400,000	\$12,055	\$10,320	\$1,735	17%
Change	\$126,000,000	\$2,343	\$1,740		
% Change	23%	19%	16.9%		

FY14 Compared to FY10 – Spending on Grad & Professional Instruction and per Student

	Total Grad	Per Student Grad	Total Professional	Per Student Professional
2014	\$266,400,000	\$23,278	\$234,600,000	\$44,861
2010	\$284,200,000	\$23,454	\$174,700,000	\$39,022
Change	(18,000,000)	(\$176)	\$60,000,000	\$5,839
% Change	-6%	-1%	34%	15%



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BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Supplemental 2016 State Budget Request

Review Review + Action Action Discussion

This is a report required by Board policy.

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Julie Tonneson, Associate Vice President & Budget Director

PURPOSE & KEY POINTS

This item presents for review and action a resolution for a supplemental budget request to the Minnesota Legislature. The University is seeking an additional \$38,850,000 in supplemental operating funds to be approved during the 2016 legislative session. The request centers on four distinct topics:

1. Replacement of lost UCare funding to the University due to a reduction in patient base from the state's decision not to award a contract to UCare for Medicaid and other public programs – \$10.5 million recurring.
2. Cybersecurity needs in conjunction with a major upgrade of the University's network infrastructure – \$19.0 million one-time.
3. Support for the Community University Health Care Clinic and the School of Dentistry's Rural Dentist Associate Program as part of a Healthy Minnesota initiative – \$3.25 million recurring and \$2.5 million one-time.
4. Research to advance the state's mining sector by improving the efficiency of mining ore, developing technologies for mining new materials, and reducing sulfate water contamination – \$3.6 million recurring.

BACKGROUND INFORMATION

Under Board of Regents Policy: *Reservation and Delegation of Authority*, the Board reserves to itself the authority to approve all budget requests to the State of Minnesota. The policy states that the Board reserves to itself authority to approve all requests for operating and capital budget appropriations from the State of Minnesota and positive or negative adjustments to the budget caused by a 1 percent or more change in total appropriations within a fiscal year.

The Board approved the University's 2016-2017 biennial request on October 10, 2014. The Minnesota Legislature acted on that request during the 2015 legislative session. The Minnesota Legislature will meet for the 2016 legislative session beginning March 8, 2016.

PRESIDENT'S RECOMMENDATION

The President recommends approval of the resolution.



REGENTS OF THE UNIVERSITY OF MINNESOTA
RESOLUTION RELATED TO THE
UNIVERSITY OF MINNESOTA'S 2016 SUPPLEMENTAL
STATE BUDGET REQUEST

WHEREAS, the University of Minnesota as the state's public, land grant university, is charged with the responsibility to pursue knowledge through research and discovery, and to apply this knowledge through teaching and learning, and outreach and public service; and

WHEREAS, continuing investment in the Medical School's Department of Family Medicine and Community Health is essential for core programs in clinical training, education and research, and continuing investment in the School of Dentistry's Mobile Dental Clinic is critical to train dental students while addressing access-to-care gaps for public program members; and

WHEREAS, the University of Minnesota is in need of a major upgrade to its critical network infrastructure that must include substantial new investment to address growing threats of sophisticated cyber intrusions that pose significant risks, including wide scale or high consequence events that could cause harm by disrupting, denying access to, degrading or destroying critical information systems; and

WHEREAS, access to health and dental care in Minnesota varies depending on a variety of socio-economic and geographic factors and the University of Minnesota has the ability to improve access to quality care and lessen disparities through its research, education and patient care; and

WHEREAS, recent fluctuations in the global iron and steel markets have had negative impacts on the mining sector in Minnesota, and the University of Minnesota is set to collaborate with stakeholders to produce solutions and tangible results in this area, and

WHEREAS, the 2016 supplemental budget request is designed to meet these objectives by investing resources to replace lost UCare funds, purchase appropriate network equipment and software, support the needs of the Community University Health Care Clinic and the Rural Dentist Associate Program, and conduct research in mining ore and other high value metallic products while reducing sulfate water contamination;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Regents approves the University's 2016 Supplemental Budget Request to the Minnesota Legislature in the amount of \$17,350,000 in recurring funds and \$21,500,000 in onetime funds from the State of Minnesota.

University of Minnesota 2016 Supplemental Budget Request

Overview

The Department of Human Services’ decision not to award a contract to UCare for Medicaid and other public programs has created a significant financial challenge for the University’s Department of Family Medicine and Community Health and School of Dentistry. This loss of resources places clinical training, education, research, and patient care at risk. UCare was created over 30 years ago by the Medical School’s Department of Family Medicine and Community Health to serve public program patients, a need not being met by other health care insurers at the time. UCare, although independent of the Medical School now, has provided approximately \$9.5 million per year to the Department of Family Medicine and Community Health for research, education and clinical training. In addition, since 2002, UCare has funded the School of Dentistry’s Mobile Dental Clinic with \$1.0 million in funds provided in FY 2015. The University of Minnesota is requesting \$10.5 million in State funds for these two programs to replace the UCare funding.

LOSS OF UCARE FINANCIAL SUPPORT

State Request: \$10.5 million (recurring)

***What:** Provide financial support for medical and dental clinical training, education, and research*

***Why:** A \$10.5 million loss of support from UCare*

***When:** FY 2017 Start*

UCare Financial Support

The University will utilize the \$10.5 million in State resources to continue its work in the following areas:

- Department of Family Medicine and Community Health: State funding of \$9.5 million will sustain the Department’s core programs including clinical training, education, and research. Funding for clinical training will include salary support for faculty physicians who provided training at metro primary care sites and eight residency sites in Duluth, Mankato, and St. Cloud. The remaining funds will be used for: medical resident and student training programs; and start-up and bridge funding for research faculty and research staff.
- School of Dentistry: State funding of \$1.0 million will be used for the Mobile Dental Clinic in which dental students provide patient care as part of their clinical education and training under the supervision of faculty dentists. This innovative program closes critical access-to-care gaps experienced by public program members of all ages who regularly face barriers to receiving quality dental care. Dental students educate patients about dental care, encourage them to develop positive oral health routines, and work to connect patients with a “dental home” for follow-up and ongoing care.

Timing and Risk

UCare allocates funding on a calendar year basis, and funding for these programs will be impacted starting in 2016. Therefore, state resources are essential in FY 2017 for maintaining clinical training, education, research, and patient care at current levels. These two programs have a broad impact. The Department of Family Medicine and Community Health is ranked third in the nation among the National Institutes of Health (NIH)-funded family medicine departments, with three faculty ranked in the top 20 nationally for family medicine. The UCare support has enabled this department to achieve and sustain this level of excellence. In addition, the Mobile Dental Clinic has performed more than 60,000 dental procedures, including cleanings and check-ups, for more than 12,000 patients across Minnesota. The Mobile Dental Clinic spends one week per month in Greater Minnesota, as represented by visits to Duluth, Thief River Falls, Winona, and Chippewa during the final quarter of 2015. A loss of funding of \$10.5 million would have severe consequences for this work.

Funding Details: UCare Financial Support Request

Funding Details: UCare Financial Support Request	Amount
Department of Family Medicine and Community Health	
Clinical Training – Faculty and Staff Salaries	\$6.8 million
Education – Staff Salaries	\$0.9 million
Research – Research Faculty and Staff Salaries and Start-Up Funds	\$1.8 million
Mobile Dental Clinic – Training Expenses and Low Reimbursement Rates	\$1.0 million
Total	\$10.5 million

University of Minnesota 2016 Supplemental Budget Request

Overview

Beginning in FY 2017, the University of Minnesota plans to advance a \$78 million information technology initiative, Next Generation Network, to upgrade the University's core network. The current University network transports research, academic, fire/life/safety, and commercial data across the world. The Next Generation Network initiative will create a more secure, stable, and right-sized network to better meet the needs of students, researchers, and the entire University community. This work will include upgrading equipment, enhancing security features, and improving wireless capabilities. The University is requesting \$19 million in one-time funding from the State of Minnesota for the cyber security portion of this work, specifically. The University will invest an additional \$59 million for equipment upgrades. Together, these investments will allow the University to meet the current and future needs for an enhanced network while minimizing costs.

CYBER SECURITY

State Request: \$19 million (one-time)
 University Investment: \$59 million
 Total Cost: \$78 million

What: Upgrade network to enhance security

Why: Current equipment is at the end of its life cycle and security is becoming a higher risk for the institution

When: FY 2017/FY 2018

Cyber Security

A \$19 million State investment in the University's cyber security efforts will enhance the University's ability to monitor and manage security in ways that cannot be done with the current network and equipment. The cyber security enhancements of the Next Generation Network project will ensure security through a two-pronged approach: enhanced tools to aide in the prevention of security breaches and early detection if an attack does occur. New security features will improve prevention by right-sizing firewalls, enhancing monitoring, and increasing protection of mission critical servers. In addition, if a security breach was to occur, this initiative will improve the University's ability to detect issues much sooner.

Timing and Risk

The University's network is critical to its mission and must evolve to meet the growing academic, research, and networking needs of the University community. Usage has more than doubled in the last five years and is expected to grow exponentially. The network is being used more broadly for academics; research has become more data-intensive; and data is being shared more broadly across numerous disciplines. The data includes both highly sensitive research data as well as private, personal data. Examples of the type of data in the University's network include: students' and employees' personal information such as social security numbers, addresses, and phone numbers; private health records; and extensive research data from a variety of disciplines. In addition, timing of this cyber security work is critical as the University's equipment nears the end of its life cycle, and data breaches at other institutions are becoming more common.

Funding Details

Of the \$19 million requested for cyber security, approximately \$10 million will be used for hardware/equipment and \$9 million for software; the University plans to utilize its current resources to provide staff support for this work. The cyber security work will be broken down into three main technical areas of improvement: 1) Security firewalls; 2) Security intrusion, detection, denial of service, and threat monitoring/logging; and 3) Security management, monitoring, and operations. A cost breakdown by these component parts is included below.

Technical Security Components	Equipment/ Hardware	Software	Total
Firewalls	\$7.8 million	\$1.2 million	\$9.0 million
Intrusion, Detection, Denial of Service, and Threat Monitoring	\$1.9 million	\$6.4 million	\$8.3 million
Management, Monitoring, and Operations	\$0.3 million	\$1.4 million	\$1.7 million
Total Cost	\$10.0 million	\$9.0 million	\$19.0 million

University of Minnesota 2016 Supplemental Budget Request

Overview

Although Minnesota is ranked among the healthiest states in the nation, access to health and dental care varies depending on a variety of socio-economic and geographic factors. The University of Minnesota has the ability to improve access to quality care and lessen disparities through its research, education, and patient care. The University is requesting \$3.25 million in recurring funds and \$2.5 million in one-time funds from the State of Minnesota to improve health and dental care access, address workforce needs, improve care coordination, institute new models of care, and address health disparities. State funding will be used for two important educational and patient care components of the University’s portfolio: the Community University Health Care Clinic (CUHCC) and the School of Dentistry’s Rural Dentist Associate Program (RDAP).

HEALTHY MINNESOTA

State Request:
\$3.25 million (recurring)
\$2.5 million (one-time)

***What:** Programmatic and capital funding for University health and dental care programs*

***Why:** Improve patient care and enhance educational opportunities within innovative, interdisciplinary, diverse settings*

When: FY 2017 Start

Healthy Minnesota Priorities

- **Community University Health Care Clinic (CUHCC):** CUHCC serves as an important primary care teaching clinic giving more than 230 Academic Health Center students and residents per year the opportunity to learn in an innovative and interdisciplinary setting. The Clinic serves a diverse population of over 11,000 low-income and underserved patients with over 65,000 visits annually in the Phillips neighborhood of South Minneapolis. State funds will be used to cover the Clinic’s incremental costs associated with the presence of learners, the acuity and complexity of patient care, and the language barriers requiring translation services. Ultimately the funds will allow the clinic to focus on priorities such as health professional workforce needs, health care coordination across service lines, providing care in a team setting, and lessening disparities.
- **School of Dentistry Rural Dentist Associate Program (RDAP):** Rural Minnesota lacks enough dentists to adequately provide care for rural citizens. The School of Dentistry will create a RDAP with dedicated rural based training sites throughout greater Minnesota. The School of Dentistry class size will be increased with the majority of the additional slots dedicated to Minnesota applicants from rural Minnesota. Dedicated training sites will be expanded and developed immediately to support six months of training in rural areas for fourth year dental students in the following communities: 1) Hibbing, which will include the expansion of and existing site with a proven, successful partnership with MnSCU (Hibbing Community College) currently serving five counties in northeast Minnesota; and 2) Bemidji, in partnership with Northern Dental Access, which is anticipated to support oral health care for the citizens of twelve counties in northwest Minnesota.

Timing and Risk

These programs provide enhanced educational opportunities for students as well as critical care for patients in the metro area and greater Minnesota. Funding for CUHCC is critical due to the financial constraints placed on the Clinic based on its educational mission and populations served; the model is not sustainable, and the Clinic is operating under a deficit. Delayed implementation of RDAP will decrease the chance for expanded access to necessary dental care in greater Minnesota and ultimately decrease the number of dentists available to serve the greater Minnesota population long-term.

Funding Details

The University is requesting \$3.25 million in recurring funds for CUHCC and RDAP and an additional \$2.5 million in one-time funds for capital costs for RDAP associated facilities in Hibbing and Bemidji. A summary of the request is included below.

Funding Request	Funding Type	Amount
CUHCC – Clinical Training and Staff	Recurring	\$2.0 million
RDAP – On-Going Training Expenses and Low Reimbursement Rates	Recurring	\$1.25 million
RDAP - Capital Costs for Expansion of the Hibbing & Bemidji Facilities	One-Time	\$2.5 million

University of Minnesota 2016 Supplemental Budget Request

Overview

The University of Minnesota is requesting \$3.6 million in recurring funds from the State of Minnesota for the Mining Innovation Minnesota Initiative. Minnesota’s mining industry has a 130-year legacy. However, recent fluctuations in the global iron and steel markets have had negative impacts on this sector in Minnesota. The University of Minnesota, in coordination with state agencies, the mining industry, and state stakeholders, is in a unique position to conduct research that will produce solutions and tangible results for advancing this sector. This work will improve the efficiency of ore processing, develop new technologies to economically extract and produce high value products, define a full portfolio of the mineral and higher value metallic product opportunities for the state, reduce sulfate water contamination, and minimize environmental impacts on the state’s land and water resources.

MINING INNOVATION MINNESOTA

State Request: \$3.6 million (recurring)

What: *Develop advanced technologies to improve the long-term viability of Minnesota’s mining industry*

Why: *Minnesota iron ore accesses a shrinking one-third of the US steel industry due to a shift from taconite to higher value metallic products. Minnesota needs a defined, environmentally responsible strategy to pursue metallic iron products and additional mineral opportunities.*

When: *FY 2017 Start*

Mining Innovation Minnesota

This Initiative has three components.

- 1) Maximizing Resource Recovery: Because the process of mining resources requires a great deal of energy and capital, maximizing recovery is critical to making Minnesota’s ore and other metallic resources more competitive in the global market. The University will assist industry in maximizing their resource recovery by piloting a new technology to extract iron to maximize yield; evaluate the legacy ore stockpiles to assist in prioritizing extraction; and accelerate the availability of new technologies for extracting other minerals.
- 2) Diversifying Mineral Opportunity Portfolio to Include Higher Value Metallic Products: Minnesota must diversify its portfolio beyond taconite to higher value iron and other metallic products to remain competitive in this sector. The University’s work will include constructing a Direct Reduced Iron (DRI) simulator for developing processes relevant to specific iron formations, piloting a new technology for processing Ilmenite (titanium dioxide ore), and working with collaborators to create a comprehensive, updated portfolio of Minnesota’s potential mineral assets and a risk/benefit analysis of those opportunities.
- 3) Creating a Portfolio of Technologies to Reduce Sulfate in Water: Water is a precious resource, and sulfate contamination from various causes has become a concern across the state. The University will create a portfolio of remediation technologies for mitigating sulfate contamination. In addition, researchers will finalize their work on developing options for reducing sulfate contamination through the use of microbes.

Timing and Risk

With the recent downturn in demand for Minnesota taconite iron pellets, workers have been laid off and plants are sitting idle. The University has unique expertise and is building partnerships with state agencies to assist Minnesota’s mining and metals industries to increase yields, diversify offerings, and pursue higher-value products in an environmentally responsible manner. Without an investment in this work, the advancement of these technologies will languish, delaying any positive impact on this sector of the state’s economy.

Funding Details

Of the \$3.6 million requested, \$3.5 million is directly related to applied research. Details are included below.

Project Costs	Total
Research Personnel	\$1.6 million
Capital Equipment	\$0.6 million
Analytical Tools, Supplies, and Other Research Expenses	\$1.3 million
Administration and Project Management	\$0.1 million
Total Cost	\$3.6 million

Supplemental 2016 State Budget Request

Finance
December 10, 2015

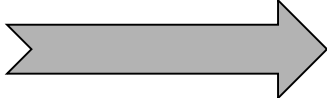


UNIVERSITY OF MINNESOTA

Driven to DiscoverSM

University of Minnesota 2016 Supplemental Request Healthy Minnesota

Support for critical health care training, education, and services statewide



- ❑ \$2 million to support primary care teaching at the Community University Health Care Clinic
- ❑ \$1.25 million to advance dentistry in rural Minnesota
- ❑ \$2.5 million to expand Rural Dentist Associate Program at Bemidji and Hibbing

University of Minnesota 2016 Supplemental Request Loss of UCare Financial Support

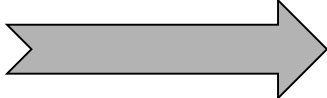
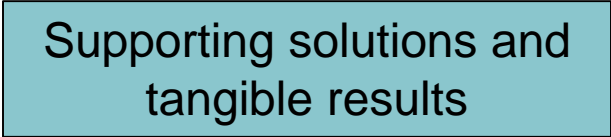
Replacement support to continue to provide critical health training and services statewide



- ❑ \$9.5 million to support core clinical training, education, and research program in the Department of Family Medicine and Community Health
- ❑ \$1 million to fund the Mobile Dental Clinic

University of Minnesota 2016 Supplemental Request Advancing and Diversifying Minnesota's Mining Region

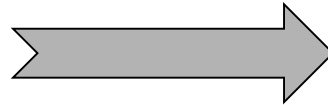
Supporting solutions and
tangible results



\$3.6 million to develop advanced technologies to improve the long term viability of Minnesota's mining region, diversify mineral production beyond taconite, and develop new sulfide remediation technologies.

University of Minnesota 2016 Supplemental Request Cyber Security

Protecting critical assets and help ensure mission continuity by implementing new cyber security technologies



\$19 million for security upgrades in conjunction with the installation of a major upgrade of the University's network infrastructure to better meet the needs of students, researchers and the entire University community.

University of Minnesota 2016 Supplemental Request Financial Summary

	<u>Recurring</u>	<u>One time</u>	<u>Total</u>
Healthy Minnesota	\$ 3.25M	\$ 2.50M	\$ 5.75M
Loss of UCare Financial Support	\$10.50M		\$10.50M
Advance & Diversify Mining Region	\$ 3.60M		\$ 3.60M
Cyber Security		\$19.00M	\$19.00M
TOTAL REQUEST	\$17.35M	\$21.50M	\$38.85M



REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO THE
UNIVERSITY OF MINNESOTA'S 2016 SUPPLEMENTAL
STATE BUDGET REQUEST

WHEREAS, the University of Minnesota as the state's public, land grant university, is charged with the responsibility to pursue knowledge through research and discovery, and to apply this knowledge through teaching and learning, and outreach and public service; and

WHEREAS, continuing investment in the Medical School's Department of Family Medicine and Community Health is essential for core programs in clinical training, education and research, and continuing investment in the School of Dentistry's Mobile Dental Clinic is critical to train dental students while addressing access-to-care gaps for public program members; and

WHEREAS, the University of Minnesota is in need of a major upgrade to its critical network infrastructure that must include substantial new investment to address growing threats of sophisticated cyber intrusions that pose significant risks, including wide scale or high consequence events that could cause harm by disrupting, denying access to, degrading or destroying critical information systems; and

WHEREAS, access to health and dental care in Minnesota varies depending on a variety of socio-economic and geographic factors and the University of Minnesota has the ability to improve access to quality care and lessen disparities through its research, education and patient care; and

WHEREAS, recent fluctuations in the global iron and steel markets have had negative impacts on the mining sector in Minnesota, and the University of Minnesota is set to collaborate with stakeholders to produce solutions and tangible results in this area, and

WHEREAS, the 2016 supplemental budget request is designed to meet these objectives by investing resources to replace lost UCare funds, purchase appropriate network equipment and software, support the needs of the Community University Health Care Clinic and the Rural Dentist Associate Program, and conduct research in mining ore and other high value metallic products while reducing sulfate water contamination;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Regents approves the University's 2016 Supplemental Budget Request to the Minnesota Legislature in the amount of \$17,350,000 in recurring funds and \$21,500,000 in onetime funds from the State of Minnesota.



BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Resolution Related to Issuance of Debt

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO
Carole Fleck, Director, Debt Management

PURPOSE & KEY POINTS

The University is requesting approval of a resolution authorizing the issuance of debt in the principal amount of up to \$97,900,000 to finance and/or reimburse the University for purchases of land and buildings, construction and remodeling projects, the acquisition and installation of equipment, and costs of issuance.

The specific property purchases and construction/remodeling projects are listed in the docket materials. The Board has approved all of the projects as part of the University's capital planning process, with the exception of the Murphy Warehouse property purchase, which is before the Board for consideration this month.

BACKGROUND INFORMATION

In accordance with Board of Regents Policy: *Debt Transactions*, this Resolution Related to Issuance of Debt is being presented for review and action.

PRESIDENT'S RECOMMENDATION

The President recommends approval of the Resolution Related to Issuance of Debt.



REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

ISSUANCE OF DEBT

WHEREAS, it has been proposed that the University proceed with a plan of financing which involves, among other things, the issuance and sale of indebtedness (such indebtedness, whether issued in the form of bonds, notes, commercial paper or such other form of indebtedness as may be designated by the University, the "Debt"), the proceeds of which are to be used to finance University capital projects which may include purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment, as well as the costs of issuance of the Debt;

WHEREAS, the Debt will be issued pursuant to one or more Order(s) of the University, which will contain the terms of such Debt and agreements and covenants of the University with respect to the payment of the principal of, premium or discount, if any, and interest on such Debt;

NOW, THEREFORE, BE IT RESOLVED by the Board of Regents of the University of Minnesota (the "Board") as follows:

1. To provide funds to finance capital projects which may include purchases of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment, as well as the costs of issuance of such financing(s) the Board hereby authorizes the sale and issuance of Debt in the principal amount of up to \$97,900,000. The Debt may be issued in one or more forms and one or more series, each to mature (or if commercial paper, to have an amortization schedule terminating) not later than the date that is 25 years after the date of issuance. The Treasurer is authorized to determine the form(s) in which the Debt will be issued, whether or not the Debt will be issued as general obligations of the University and whether or not the Debt will be issued in a form that is tax-exempt under Section 103 of the Internal Revenue Code of 1986, as amended.

2. The purchases of land and buildings, construction and remodeling projects, or acquisition of equipment to be financed by the proceeds of the Debt shall be those the source of funding of which is so designated by the Board or by the Treasurer as part of the University's capital planning process.
3. If issued in the form of bonds, the Debt may be sold in either a negotiated sale or a competitive process, as determined by the Treasurer. The Treasurer is authorized to negotiate and approve the terms and conditions of the appropriate agreement or agreements with financial advisors, banks, investment banking firms, or other financial institutions, including the terms and conditions upon which their services will be rendered and the terms and conditions upon which the Debt will be sold and issued. The Treasurer is further authorized to negotiate and approve the terms and conditions of any credit support or liquidity facility for any series of Debt. Such agreements shall be in the form and contain such rights, obligations, covenants, agreements, representations and warranties of the University as are approved by the Treasurer and the General Counsel.
4. In connection with the issuance of any series of Debt, the President and Treasurer are authorized to execute and deliver on behalf of the University the Order or any supplement or amendment thereto under which the Debt is to be issued in the form and containing such covenants, agreements, representations and warranties as is approved by the Treasurer and the General Counsel, and the Secretary and Treasurer are authorized to execute and deliver the Debt in accordance with such Order or any supplement or amendment thereto. The signatures of the Secretary and/or Treasurer on the documents evidencing the Debt may be by facsimile.
5. The President and Treasurer are authorized to execute and deliver a purchase agreement with the initial purchaser or purchasers of any series of Debt in the form and containing such covenants, agreements, representations and warranties of the University as are approved by the Treasurer and General Counsel.
6. The Treasurer is authorized to approve the Preliminary Official Statement, final Official Statement, Offering Memorandum, Offering Circular, or other offering material or any supplements or amendments thereto to be prepared and distributed to any purchaser or potential purchaser of a series of Debt, and the President is authorized to execute and deliver the final Official Statement or any supplements or amendments thereto. In the case of the sale of any series of Debt in a competitive process, the Treasurer is authorized to approve the Notice of Sale and any amendment thereto.

7. The appropriate University officers are authorized to execute and deliver all other documents, certificates and to take such action as may be necessary or appropriate in connection with the issuance and sale of the Debt.
8. The Secretary and other officials of the University are authorized and directed to prepare and furnish to any purchasers of the Debt certified copies of all proceedings and records of the University as may be required or appropriate to evidence the facts relating to the legality of the Debt as such facts appear from the books and records in the officers' custody and control or as otherwise known to them; and all such certified copies, certificates and affidavits, including any heretofore furnished, shall constitute representations of the University as to the truth of all statements contained therein.
9. The execution of any document by the appropriate University officers herein authorized shall be conclusive evidence of the approval of such documents in accordance with the terms hereof. In the absence of the President or Treasurer, any Order, final Official Statement, purchase agreement or any other document to be executed by the President or Treasurer in connection with the Debt may be executed by the Chair or Vice Chair instead of the President and by the Secretary instead of the Treasurer.

Resolution Related to Issuance of Debt
Finance Committee
December 10, 2015

Project	Project Description	Estimated Debt
PROPERTY PURCHASES		
650-25th Ave SE & 501-29 th Ave SE	2 fenced vacant parcels totaling 3.89 acres, located north of the Intercampus Transitway and LRT Green Line, and adjacent to the East Gateway District Closing occurred in July 2014	\$ 8,000,000
Block 31	14 separate tax parcels totaling 2.29 acres directly east of the new Ambulatory Care Center closings occurred in Jan & Sept 2015	26,000,000
Murphy Warehouse	701-24 th Avenue SE; 708,087 square feet of building space on 21.76 acres Closing expected in December 2015	18,200,000
600-25 th Ave SE and 649-26 th Ave SE	Electrical Steel Elevator property and Riverland Ag, WhiteBox site consisting of 4.79 acres and structures thereon, plus estimated demolition costs – closing occurred November 15, 2015	<u>2,500,000</u>
	SUBTOTAL	<u>54,700,000</u>
2015 APPROVED CAPITAL BUDGET (2014 LEGISLATIVE REQUEST)		
Tate Science & Teaching Renovation	Rehabilitation of the Tate Lab of Physics for the College of Science & Engineering	33,550,000
UMC Wellness Center	Design & construction of new 36,000 square foot Wellness Center on Crookston Campus	5,000,000
<u>Lab Improvements Fund</u>		
Bee Lab	Design & construction of 11,000 square foot research laboratory to facilitate work on bee health & biodiversity	2,118,000
Engineering & Fisheries	Renovation of existing Aquatic Invasive Species Lab located in the Engineering & Fisheries Building	<u>1,588,000</u>
	Total Laboratory Improvements Fund	<u>3,706,000</u>
	SUBTOTAL	<u>42,256,000</u>
	Estimated Costs of Issuance	944,000
	Dec 2015 Debt Resolution – Authorized Amount	\$ 97,900,000



BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Consent Report – **REVISED**

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Richard Pfitzenreuter, Vice President & CFO

PURPOSE & KEY POINTS

General Contingency

The purpose of this item is to seek approval for allocations from General Contingency greater than \$250,000. There are no items requiring approval this period.

Purchase of Goods and Services \$1,000,000 and Over

The purpose of this item is to seek approval for purchases of goods and services of \$1,000,000 and over.

- To FEI Company for an estimated \$5,115,470 (including \$165,696 import duty) for Tecnai G2 Spirit BioTWIN and Titan Krios cyro-electron microscope system for The Hormel Institute. The system will be purchased using funds specifically donated by The Hormel Foundation to equip an electron microscope shared instrument core. This item was not budgeted for as part of the current Fiscal Year budget but as noted, will be paid for with gift funds. Vendor was selected through a competitive process.

MD Anderson Settlement

At a meeting on October 30, 2015, the Litigation Review Committee authorized the settlement of the University’s claims against MD Anderson with respect to the licensing of the “Sleeping Beauty” technology.

The University entered into an Inter-Institutional Commercialization Agreement with the University of Texas MD Anderson Cancer Center under which the University granted MD Anderson the exclusive right to market and license the University’s Sleeping Beauty technology (SB) for the treatment of cancer. In exchange, the University was to receive 22 percent of all “license consideration” generated by MD Anderson from the SB technology. MD Anderson licensed the SB technology along with other technology (some of which was not owned by the University) pursuant

to a single license agreement to Intrexon (XON) and Ziopharm (ZIOP). The terms of the license agreement called for a onetime payment of \$100 million in the form of \$50 million in equity from each company (“upfront shares”). Shareholders of record of XON were later issued incremental shares of ZIOP. MD Anderson received, therefore, additional allocation of ZIOP shares (“incremental shares”). The dispute with MD Anderson arose when the University discovered that MD Anderson had also entered into an Accelerated Closing Incentive (ACI) agreement with XON/ZIOP, under which MD Anderson received an additional \$15 million in shares (“ACI shares”). The University indicated to MD Anderson that it was entitled to 22 percent of these ACI shares. MD Anderson disputed this and also claimed that the University was not entitled to 22 percent of the total amount of upfront and incremental shares since it was not only University technology that was licensed to XON/ZIOP. This dispute was resolved with the University waiving its rights to any of the ACI shares, and MD Anderson transferring to the University 22 percent of the total amount of upfront and incremental shares.

It is the intent of the University to sell the shares of stock as market conditions allow in order to maximize their value. The Office of Investments and Banking is responsible for the sale of the shares of stock received from MD Anderson. Board of Regents Policy: *Commercialization of Intellectual Property Rights* governs patents and the ownership, commercialization, and dissemination of intellectual property rights in technology created at the University. Board of Regents Policy: *Central Reserves Fund* governs the accounting and distribution of the funds received from legal settlements.

The attached resolution provides the administration with the authority to make the required distributions of the cash received from the sale of stock consistent with Board policy. The resolution further directs the administration to provide to the Board with the total value of the proceeds received from the sale of stock and a copy of the revised central reserves budget for FY 2016 adjusted to reflect the deposit of the proceeds and the specific payments to the inventors and allocations made to the academic and support units.

BACKGROUND INFORMATION

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

- General Contingency: Reservation and Delegation of Authority, Sec.VII, Subd. 1.
- Purchase of Goods and Services \$1,000,000 and Over: Reservation and Delegation of Authority, Sec.VII, Subd. 6

PRESIDENT’S RECOMMENDATION

The President recommends approval of the Consent Report.



BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Consent Report

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO

PURPOSE & KEY POINTS

General Contingency

The purpose of this item is to seek approval for allocations from General Contingency greater than \$250,000. There are no items requiring approval this period.

Purchase of Goods and Services \$1,000,000 and Over

The purpose of this item is to seek approval for purchases of goods and services of \$1,000,000 and over.

- To FEI Company for an estimated \$5,115,470 (including \$165,696 import duty) for Tecnai G2 Spirit BioTWIN and Titan Krios cyro-electron microscope system for The Hormel Institute. The system will be purchased using funds specifically donated by The Hormel Foundation to equip an electron microscope shared instrument core. This item was not budgeted for as part of the current fiscal year budget, but as noted, will be paid for with gift funds. Vendor was selected through a competitive process.

BACKGROUND INFORMATION

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

- General Contingency: *Reservation and Delegation of Authority, Sec.VII, Subd. 1.*
- Purchase of Goods and Services \$1,000,000 and Over: *Reservation and Delegation of Authority, Sec.VII, Subd. 6*

PRESIDENT'S RECOMMENDATION

The President recommends approval of the Consent Report.

General Contingency

Fiscal Year 2015-16

Recipient	Amount	Balance	Purpose
1 FY2016 General Contingency		\$1,000,000	
2 Carryforward from FY15 to FY16	8,496	1,008,496	
3 UM Crookston	186,000	822,496	Offset UMC FY15 tuition shortfall
4 Reversal of JE0000702057 from FY15	(132,000)	954,496	Transfer in FY15 did not post properly and was deleted
5 Office of Real Estate	132,000	822,496	Purchase of 120 acres in Isanti County for Cedar Creek
6 University Services	11,500	810,996	Reconstruction of Eastcliff Event Lawn space
7 CFANS	166,400	644,596	Beef Feedlot relocation and renovation in Rosemount
8 New items this reporting period:			
9 Small Project Balances Returned to General Contingency	(18,762)	663,358	
10 FY 2015-16 Ending Balance		663,358	

* Subject to Board approval due to cost of \$250,000 or more

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

To FEI Company for an estimated \$5,115,470.00 (including \$165,696 import duty) for Tecnai G2 Spirit BioTWIN and Titan Krios cyro-electron microscope system for The Hormel Institute.

The Hormel Institute intends to acquire a cryo transmission electron microscope (TEM or Cryo-EM) system to deliver 3D characterizations of biological and biomaterials samples in cell biology, structural biology, and nanotechnology research.

The overall goal is to achieve 3D structures of macromolecule with a resolution of less than 1nm and ideally close to or less than 3Å to enable our researchers to obtain better insight and understanding of macromolecular structures, cellular components, cells and tissues in three dimensions.

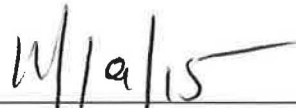
Through a Request for Proposal (RFP) process FEI Company provided the best value and availability while meeting our scientific research requirements.

The system will be purchased using funds specifically donated by The Hormel Foundation to equip an electron microscope shared instrument core. This item was not budgeted for as part of the current Fiscal Year budget.

Submitted by: Zigang Dong,
The Hormel Institute Director
801 16th Avenue NE
Austin, MN 55912
Email: zgdong@hi.umn.edu
Phone: (507) 437-9600
Fax: (507) 437-6060

Approval for this item is requested by:


Vice President for Research


Date



REGENTS OF THE UNIVERSITY OF MINNESOTA

RESOLUTION RELATED TO

**DISTRIBUTION OF LEGAL SETTLEMENT INCOME RELATING TO
COMMERCIALIZATION OF INTELLECTUAL PROPERTY RIGHTS**

WHEREAS, the University of Minnesota as the state's public, land grant university, is charged with the responsibility to pursue knowledge through research and discovery, and to apply this knowledge through teaching and learning, and outreach and public service; and

WHEREAS, the University has entered into a legal settlement agreement with MD Anderson in which the University will receive shares of stock that the University will sell as market conditions allow; and

WHEREAS, the Board of Regents has a Central Reserves Fund policy that governs accounting for legal settlements within the central reserves fund; and

WHEREAS, the Board of Regents has a policy on patents and the ownership, commercialization, and dissemination of intellectual property rights in technology created at the University of Minnesota; and

WHEREAS, the Board of Regents policy requires the approval of allocations from central reserves .

NOW, THEREFORE, BE IT RESOLVED that the Board of Regents approves the allocation of the MD Anderson legal settlement funds from the central reserves fund consistent with the applicable Board policy.

BE IT FURTHER RESOLVED that after the sale of all shares of stock received from the MD Anderson settlement that the administration prepare and distribute to the Board of Regents a revised central reserve fund budget

for fiscal year 2016 reflecting the allocation of funds pursuant to the applicable Board policy on Commercialization of Intellectual Property Rights.

Exhibit A
Per Regents Policy
2007

Exhibit B
Per Regents Policy
2010

Royalty Revenue Distribution

Revenue Allocation to Cases

96135 Revenue - 50%

Z02106 Revenue - 50%

Case Level Revenue Distribution

Patent Recovery - \$21K

Patent Recovery - \$12K

IIA – Beckman - 5%
OTC Admin. Fee – 15%

Exhibit C

Exhibit B

Inventors - 33.34%

Exhibit D

Department/College – 33.33%
Department – 25.33%
College – 8.00%

Exhibit D

OVPR – 33.33%

Exhibit D

Inventors – 33.34%

Exhibit E

Department/College – 33.33%
Department – 25.33%
College – 8.00%

Exhibit F

OVPR – 33.33%

Exhibit B

Case # 96135

- **Royalty Income Distribution Mapping:**
 - ✓ Patent Cost Expenses Recovery - \$21K
 - ✓ 33.34% - Inventors:
 - 21.34% - Perry Hackett, Jr.
 - 39.33% - Zoltan Ivics
 - 39.33% - Zsuzsanna Izsvak
 - ✓ 33.33% - Department/College:
 - 25.33% - Department:
 - 100% - CBS Gen. Cell Bio. & Dev. Dept. – 10873
 - 8.00% - College:
 - 100% - CBS Dean's Office Admin - 10845
 - ✓ 33.33% - OVPR - 10717

Case # Z02106

- **Royalty Income Distribution Mapping:**
 - ✓ 5.00% - Beckman Foundation
 - ✓ Patent Cost Expenses Recovery - \$12K
 - ✓ 15.00% - OTC Admin. Fees
 - ✓ 33.34% - Inventors:
 - 27.30% - Perry Hackett, Jr.
 - 27.30% - Karl Clark
 - 27.30% - Aron Geurts
 - 7.50% - Geyi Liu
 - 7.50% - Zongbin Cui
 - 3.10% - Adam Dupuy

Case # Z02106 – Continued

- **Royalty Income Distribution Mapping – Continued:**

- ✓ 33.33% - Department/College:

- 25.33% - Department:

- 3.10% - MED Medicine Genetics Division** - 11772

- 96.90% - CBS Gen. Cell Bio. & Dev. Department - 10873

- 8.0% - College:

- 3.10% - MEDXX Financial Management** – 12161

- 96.90% - CBS Dean's Office Admin. – 10845

- ✓ 33.33% - OVPR -10717

**Note: Adam Dupuy is an inventor from the Medical School. The rest of the inventors are from CBS Gen. Cell Bio. & Dev. Department.

Royalty Revenue Distribution
\$40M Hypothetical Calculation

Case 96135	\$20M	Case Z02106	\$20M	Total \$40M
-	-	IIA Beckman 5%	\$1.00	\$1.00
<i>Remaining Subtotal</i>	\$20.00	<i>Remaining Subtotal</i>	\$19.00	\$39.00
-	-	OTC 15%	\$2.85	\$2.85
<i>Remaining Subtotal</i>	\$20.00	<i>Remaining Subtotal</i>	\$16.15	\$36.15
Inventors 33.34%	\$6.67	Inventors 33.34%	\$5.39	\$12.06
Perry Hackett, Jr. 21.34%	\$1.43	Perry Hackett, Jr. 27.30%	\$1.47	
Zoltan Ivics 39.33%	\$2.62	Karl Clark 27.30%	\$1.47	
Zsuzanna Izsvak 39.33%	\$2.62	Aron Geurts 27.30%	\$1.47	
		Geyi Liu 7.50%	\$0.40	
		Zongbin Cui 7.50%	\$0.40	
		Adam Dupuy 3.10%	\$0.18	
<i>Remaining Subtotal</i>	\$13.33	<i>Remaining Subtotal</i>	\$10.76	\$24.09
Departments/Colleges 33.33%	\$6.67	Departments/Colleges 33.33%	\$5.38	\$12.05
Departments 25.33%	\$5.07	Departments 25.33%	\$4.09	
CBS DGCBD 100.00%	\$5.07	MED MGD 3.10%	\$0.13	
Colleges 8.00%	\$1.60	CBS DGCB 96.90%	\$3.96	
CBS DOA 100.00%	\$1.60	Colleges 8%.00%	\$1.29	
		MEDXX FM 3.10%	\$0.04	
		CBS DOA 96.90%	\$1.25	
<i>Remaining Subtotal</i>	\$6.66	<i>Remaining Subtotal</i>	\$5.38	\$12.04
OVPR 33.33%	\$6.66	OVPR 33.33%	\$5.38	\$12.04



BOARD OF REGENTS DOCKET ITEM SUMMARY

Finance

December 10, 2015

AGENDA ITEM: Information Items

Review

Review + Action

Action

Discussion

This is a report required by Board policy.

PRESENTERS: Richard Pfutzenreuter, Vice President & CFO

PURPOSE & KEY POINTS

Annual Economic Development Report

This report provides a statistical overview of the University's expenditures with small business, and with Targeted Business (women-, minority- and disabled-owned business).

Total expenditures with Targeted Business for the fiscal year ending June 2015 were \$59,560,733. This number represents 7.87 percent of the University's total expenditures in the same categories for this period. The report also shows the total expenditures with small business for this period.

Quarterly Investment Advisory Committee Update

The purpose of this item is to provide a report on the quarterly meeting of the Investment Advisory Committee (IAC) held on November 11, 2015. The agenda for the meeting included:

- Portfolio Performance Review
- Asset Allocation Study Overview
- FY 2026 Benchmark Recommendation – Approved
- Manager Recommendation: Tritium I – Approved
- Manager Discussion: CD Capital

M-Health Status Report

Since approval of the Letter of Intent (LOI) regarding the integration of University of Minnesota Physicians (UMP) and Fairview into a new entity, the parties to the LOI (UMP, Fairview, and the University) have been working together to define next steps and to organize work needed to complete the definitive agreement. Given the considerable amount of work required, it was necessary to engage several external parties to complement individual and joint efforts. The following highlights the anticipated external contracts as of November 9, 2015, required to

complete the work. The engagements listed below exclude any contracts that may be solely undertaken by Fairview Health Services to meet its financial or operational due diligence requirements, legal advice and assistance, or other project management services designed to meet its specific needs.

- Engagement of CliftonLarsonAllen to provide consulting services, including project management, to assist the University and UMP in organizing the internal work teams and to facilitate the development of respective negotiating principles and positions around key integration topics. The cost of the engagement is estimated at \$425,000.
- Engagement of Deloitte & Touche, LLP to provide consulting services including financial and operational due diligence for the proposed integration of Fairview Health Services and UMP. The cost of the engagement is estimated at \$1,500,000.
- Engagement of Konrad J. Friedemann from FriedemannFoarde to provide the University legal advice and assistance in the development of the definitive agreement. The cost of the engagement is estimated at \$350,000-\$400,000. The scope of work is still being finalized.
- Engagement of Cliff Stromberg of Hogan Lovells to provide very high-level legal consultation regarding the organizational model of the “new” entity. Stromberg is based in Washington, D.C., and is an expert on academic health center business activities who has advised the University for many years. This engagement is expected to be episodic. Stromberg will not be hands-on in the negotiation or drafting, but will provide perspective at a national level, as needed.
- Engagement of Heidrick & Struggles to assist the University and Fairview Health Services in the search process for a CEO of the new integrated structure. The cost of the University share of the engagement is estimated at \$375,000-\$450,000.
- Engagement of Economist Incorporated to provide expert economic and consulting services to Fairview Health Services and UMP regarding the antitrust risk of the transaction. The cost of the engagement is estimated at \$75,000 and will be split 50/50 between Fairview Health Services and the University/UMP.
- Engagement of an individual or firm, to be determined, to provide consulting services on pre- and post-integration issues and upfront project management to assist the University, Fairview Health Services, and UMP in organizing the joint work teams and to facilitate the development of the definitive agreement. The cost of the engagement has not been estimated, as the final scope of work will be negotiated with the individual or firm retained. This contract is in process through an RFP issued by Fairview Health Services with continuing input from the University and UMP.

Emergency Approval

Chair Johnson, Vice Chair McMillan, and Finance Committee Chair Beeson approved a purchase of \$1,000,000 or greater on November 11, 2015, November 12, 2015, and November 11, 2015, respectively, as follows:

- Deloitte & Touche, LLP for an estimated \$1,500,000 to provide consulting services and due diligence for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015, through June 30, 2016. Deloitte will evaluate multiple areas of importance, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications.

The approval was consistent with Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section II, Subd. 10, which states: "Upon the recommendation of the president, the Board chair, vice chair, and the respective Committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy."

Office for Business & Community Economic Development



UNIVERSITY OF MINNESOTA

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**TARGETED BUSINESS REPORT
BREAKDOWN BY CLASS
FISCAL YEAR CUMULATIVE TOTALS 2014-2015**

Classification	Goods and Services	Percent of Total WMDB Expenditures	Construction	Percent of Total WMDB Expenditures
African American	\$154,464	0.26%	\$4,779,234	8.02%
Asian	\$699,439	1.17%	\$508,196	0.85%
Hispanic	\$722,842	1.21%	\$49,169	0.08%
American Indian/ Alaska Native	\$795,901	1.34%	\$15,704,538	26.37%
Woman	\$14,084,808	23.65%	\$22,062,142	37.04%
Disabled	\$0	0.00%	\$0	0.00%
Total	\$16,457,454	27.63%	\$43,103,279	72.37%
Total WMDB Expenditures	\$59,560,733			
Total University Expenditures	\$756,817,213			

**TARGETED BUSINESS REPORT
TOTAL PURCHASING & CONSTRUCTION EXPENDITURES
FISCAL YEAR CUMULATIVE TOTAL COMPARISON 2014-2015**

CONSTRUCTION EXPENDITURES

	<u>2014</u>	<u>2015</u>	<u>% change</u>
Total Construction Expenditures	\$170,057,404	\$141,247,627	-16.94%
Total WMDB Construction	\$27,903,463	\$43,103,279	54.47%
Percent of Total Construction	16.41%	30.52%	14.11%

PURCHASING EXPENDITURES

Total Goods & Services Expenditures	\$627,057,210	\$615,569,586 *	-2%
Total WMDB Goods & Services Expenditures	\$18,049,482	\$16,457,454	-8.82%
Percent of Total Goods & Services	2.88%	2.67%	-0.20%

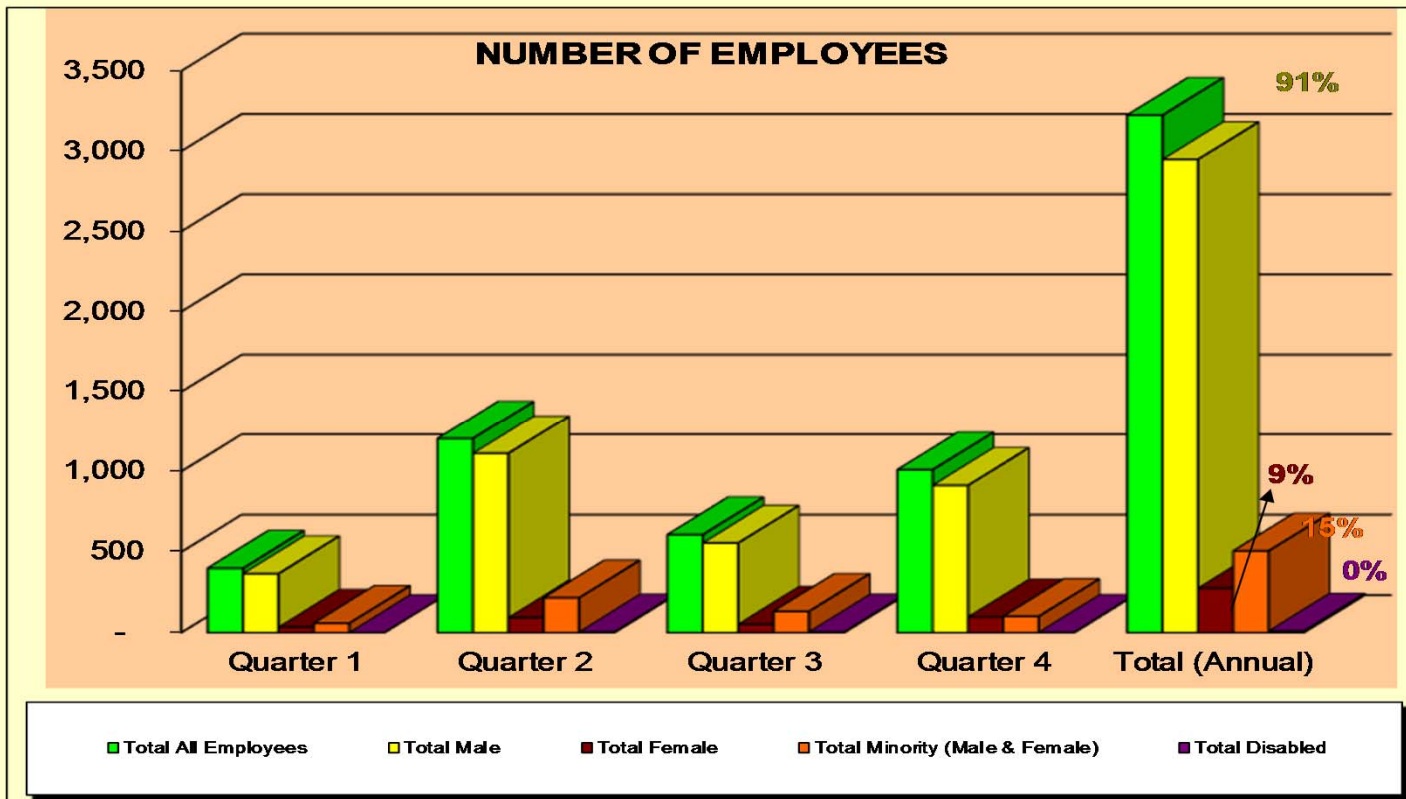
GRAND TOTAL

Total All Expenditures	\$797,114,614	\$756,817,213	-5.06%
Total WMDB Expenditures	\$45,952,945	\$59,560,733	29.61%
WMDB Percent of Totals	5.76%	7.87%	2.10%

*The UofM expenditures in two areas that are deemed "non-biddable" (utilities and postage only) and not included in the "University Expenditures" figure. (approx. \$62,017,505)

2014-2015 CONSTRUCTION WORKFORCE UTILIZATION REPORT

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total (Annual)	% of Total Empl. (Annual)
Total All Employees	400	1,206	608	1,011	3,225	100%
Total Male	366	1,113	556	914	2,949	91%
Total Female	34	93	52	97	276	9%
Total Minority (Male & Female)	58	216	132	101	507	15%
Total Disabled	-	4	4	2	10	0%
Total Minority Male	54	208	120	93	475	15%
Total Minority Female	4	4	8	6	22	1%



Univ. Target

91%

9%

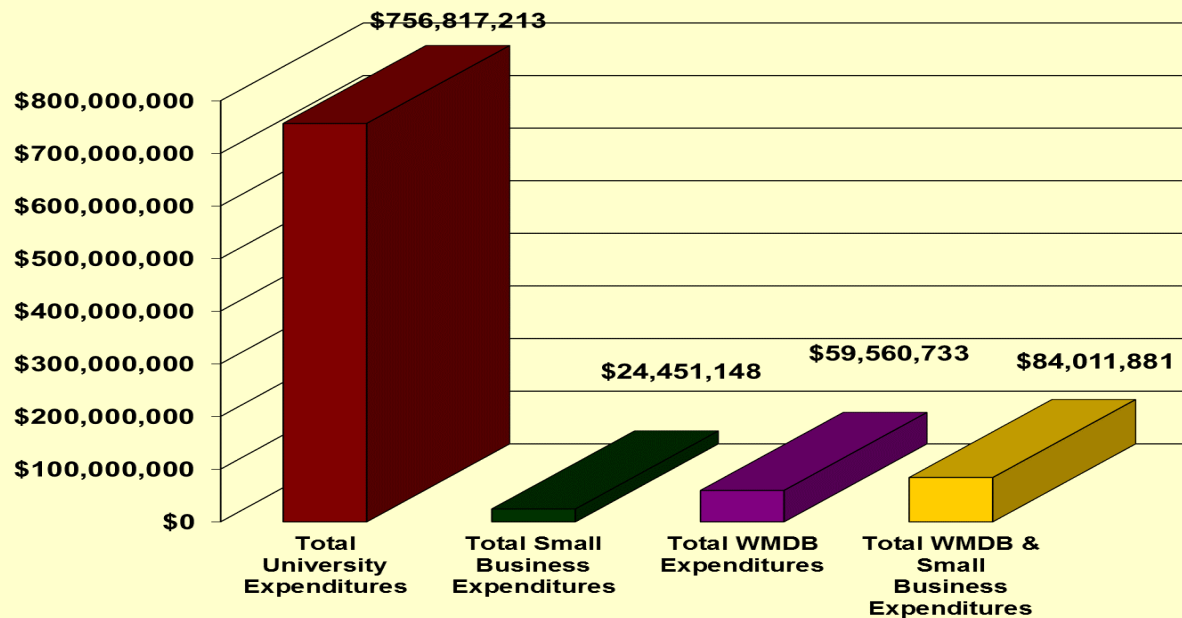
15%

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**TARGETED AND SMALL BUSINESS (SBE) REPORT
TOTAL EXPENDITURES WITH SMALL BUSINESSES
FISCAL YEAR CUMULATIVE TOTALS 2014-2015**

Total Small Business Expenditures	\$24,451,148	3.2% of Total Expenditures
Total WMDB Expenditures	\$59,560,733	7.9% of Total Expenditures
Total Combined Classification Expenditures (WMDB & Small Businesses)	\$84,011,881	
Percent of Total University Expenditures for Combined Classifications	11.10%	
Total University Expenditures	\$756,817,213	

TOTAL COMBINED CLASSIFICATION EXPENDITURES



**TARGETED BUSINESS REPORT
TOTAL PURCHASING & CONSTRUCTION EXPENDITURES
FIRST QUARTER 2015-2016**

CONSTRUCTION EXPENDITURES

Total Construction Expenditures	\$48,818,457
Total WMDB Construction	\$11,056,662
Percent of Total Construction	23%

PURCHASE EXPENDITURES

Total Goods & Services Expenditures	\$159,991,553[*]
Total WMDB Goods & Services Expenditures	\$3,408,632
Percent of Total Goods & Services	2.13%

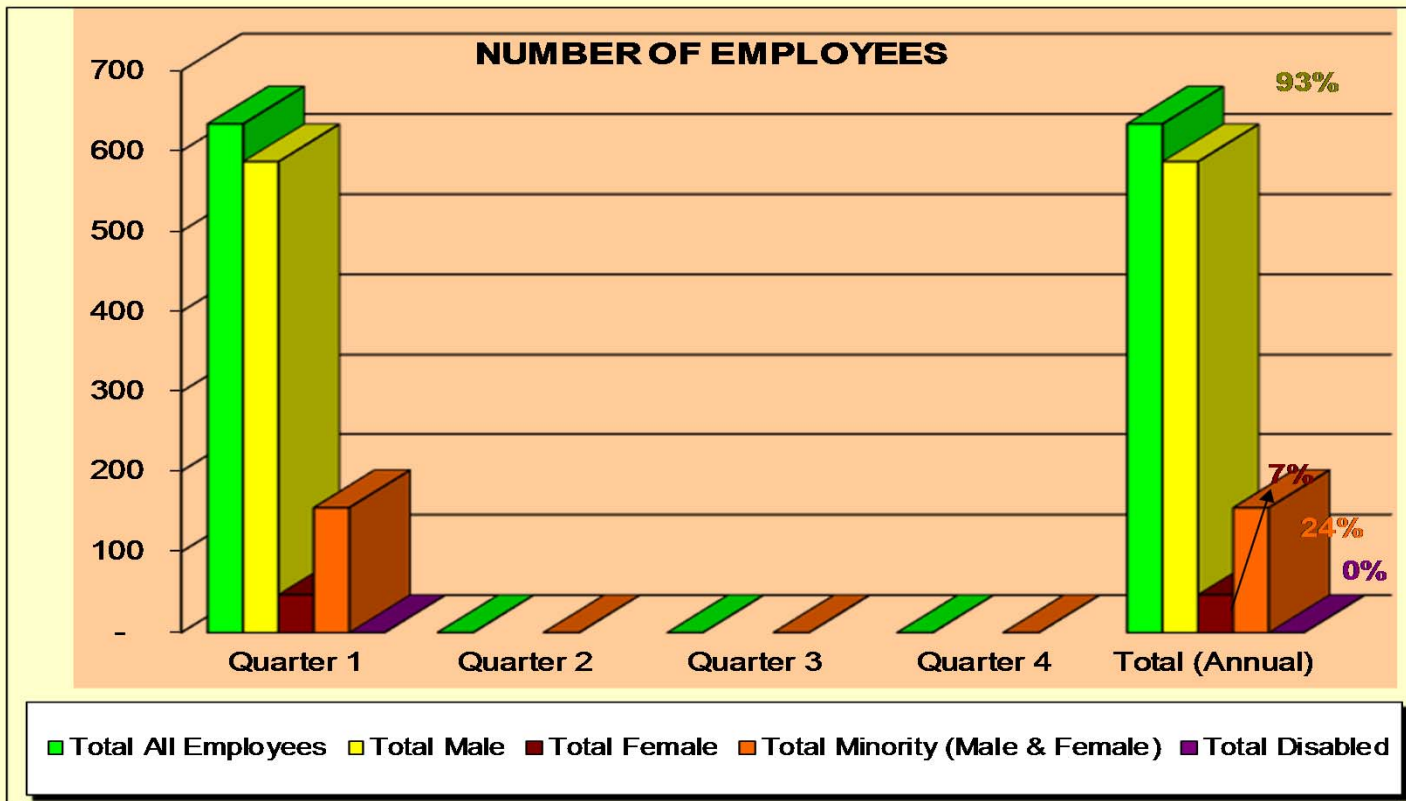
GRAND TOTAL

Total Goods, Services & Construction Expenditures	\$208,810,010
Total WMDB Expenditures	\$14,465,294
WMDB Percent of Totals	6.93%

*University expenditures in the area of postage and utilities are deemed non-biddable and have been excluded from the total spend figure. (approx. \$16,212,506)

2015-2016 CONSTRUCTION WORKFORCE UTILIZATION REPORT

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total (Annual)	% of Total Empl. (Annual)
Total All Employees	634	-	-	-	634	100%
Total Male	587				587	93%
Total Female	47				47	7%
Total Minority (Male & Female)	155	-	-	-	155	24%
Total Disabled	-				-	0%
Total Minority Male	152				152	24%
Total Minority Female	3				3	0%



Univ. Target

93%

7%

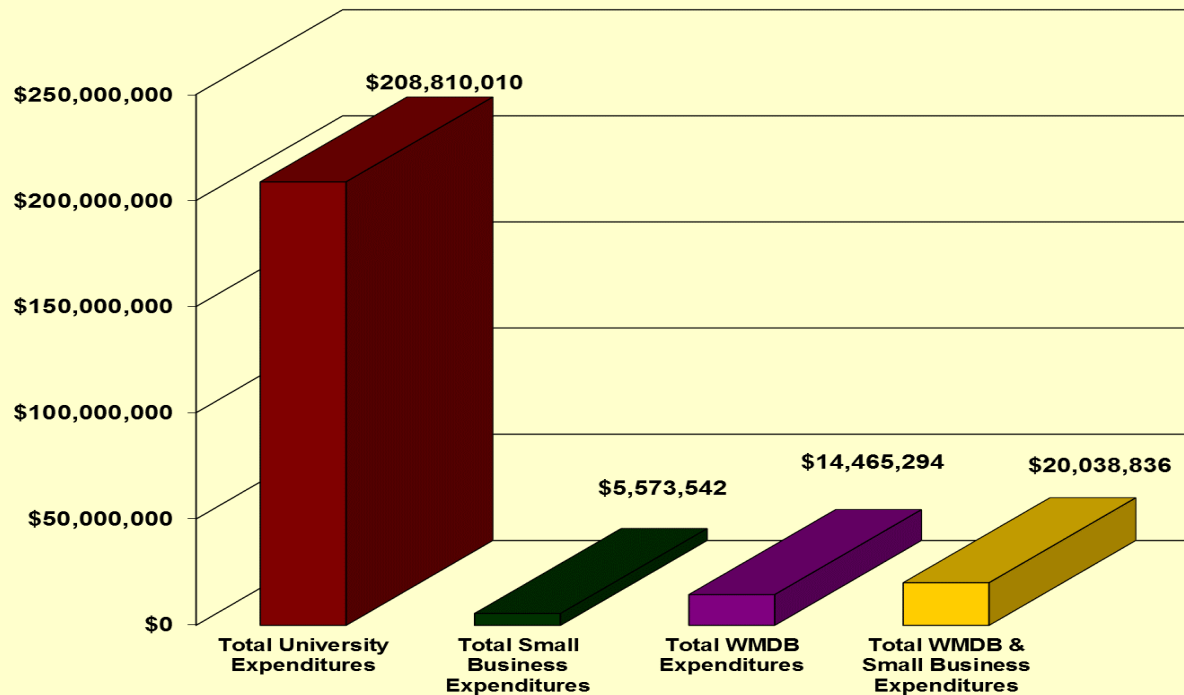
24%

0%

**TARGETED AND BUSINESS (SBE) REPORT
TOTAL EXPENDITURES WITH SMALL BUSINESSES
FIRST QUARTER 2015-2016**

Total Small Business Expenditures	\$5,573,542	2.7% of Goal
Total WMDB Expenditures	\$14,465,294	6.9% of Total Expenditures
Total Combined Classification Expenditures (WMDB & Small Businesses)	\$20,038,836	
Percent of Total University Expenditures for Combined Classifications	9.60%	
Total University Expenditures	\$208,810,010	


TOTAL COMBINED CLASSIFICATION EXPENDITURES



*Regents of the University of Minnesota
Office of the Board of Regents*

*600 McNamara Alumni Center
200 Oak Street S.E.
Minneapolis, MN 55455
612-625-6300*

November 12, 2015

To: President Eric Kaler 
From: Brian Steeves, Executive Director & Corporate Secretary
Re: *Emergency Approval*

Chair Johnson, Vice Chair McMillan, Finance Committee Chair Beeson, and Audit & Compliance Chair Brod approved your request for emergency approval of the following action (as described in the attached letter) on November 11, 2015, November 12, 2015, November 6, 2015, and November 11, 2015, respectively:

- Deloitte & Touche, LLP for an estimated \$1,500,000 to provide consulting services and due diligence for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015 through June 30, 2016. Deloitte will evaluate multiple areas of importance, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications.

I understand that this information will be reported to the Board of Regents at the December 2015 meetings, as required by Board policy.

c: Richard Pfutzenreuter, Vice President
Gail Klatt, Associate Vice President
Michael Volna, Associate Vice President

November 3, 2015

The Honorable Dean E. Johnson
The Honorable David J. McMillan
The Honorable Richard Beeson
The Honorable Laura Brod

Dear Members of the Board:

As you know, the policy on Board Operations and Agenda Guidelines stipulates that Board approval is required before the University makes any purchase of goods or services in the amount of \$1,000,000 or more. This approval is also required by the Regents policy on Purchasing.

Since the Board will not be meeting in November 2015, no approvals for large purchases are possible until December 10, 2015, under normal procedures. However, the Board Operations and Agenda Guidelines allow for an emergency procedure if an emergency situation exists as defined in the Guidelines. Specifically, in Section II, Subd. 10, the policy reads as follows:

Upon the recommendation of the president, the Board chair, vice chair, and the respective committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approval will be brought to the next meeting of the Board, consistent with Board policy.

Upon the request of the Director of Purchasing, the Controller, and the Vice President and Chief Financial Officer, I am recommending Board approval for the following large purchase using this emergency process:

- To Deloitte & Touche, LLP for an estimated \$1,500,000 to provide consulting services and due diligence for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015 through June 30, 2016. Deloitte will evaluate multiple areas of importance, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications. The fees and expenses for this engagement are estimated at \$1,500,000.

The Controller's Office has reviewed the scope, deliverables and Deloitte's proposed role for these engagements. Engaging Deloitte for this work would not

Emergency Approval Request

November 5, 2015

Page 2

impair the firm's independence with respect to their role as independent external auditor of the University of Minnesota.

I am recommending that this be approved on an emergency basis to assure the purchase is made as economically as possible, and to avoid interruption of its related projects.

Attached is additional information and supporting documentation for the purchase itself and justification for handling it under the emergency approval process.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Kaler", with a long horizontal flourish extending to the right.

Eric W. Kaler
President

EWK:jes

Enclosures (4)

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

To Deloitte & Touche, LLP for an estimated \$1,500,000 to provide consulting services and due diligence for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system during the period of November 6, 2015 through June 30, 2016.

On October 9, the Board of Regents of the University of Minnesota approved a non-binding letter of intent to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system called University of Minnesota Health. The University will engage Deloitte to provide consulting services and due diligence for this integration. Deloitte will evaluate multiple areas of interest, including financial accounting, third party reimbursement, billing and coding, employee benefits, information technology, facilities, fixed assets and tax implications.


Completion of this work will identify priority deal issues, complete the due diligence required to fully explore these issues and inform strategies based on these processes in order to protect University interests in this integration.

This vendor was chosen based on two criteria. The first is that they are large enough and with a sufficient pool of expertise and experience to be able to examine all relevant processes and minimize fragmentation of efforts. The second is that they are familiar with the financial processes, systems and standards of the University of Minnesota. Deloitte has the combination of expertise and familiarity to meet the accelerated deadlines required. The Controller's Office has reviewed the proposed scope and confirmed that the work performed under this agreement will not compromise Deloitte's independence impair their ability to continue as auditors for the University.

This contract will be funded as part of the M Health initiative. Contract will be executed by the General Counsel to preserve Attorney/Client privilege for the work product.

Submitted by: Michael D. Volna, Associate Vice President, Finance and Controller
Controller's Office, volna001@umn.edu

Approval for this item requested by:



Richard H. Pfitzenreuter III, Vice President, Treasurer,
& Chief Financial Officer

11/15/15

Date

Rationale for Exception to Competitive Bidding

The Board of Regents of the University of Minnesota approved a non-binding letter of intent on October 9, 2015 to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system (IAHS) called University of Minnesota Health. This calls for Definitive Agreements for the IAHS to be reached by March 2016. Given the timeline imposed by the Regents, it is imperative that the due diligence for the proposed integration begin without further delay. Deloitte & Touche will identify priority deal issues, complete the due diligence required to fully explore these issues and formulate strategies based on these processes in order to protect University interests in this integration. Delay in the contracting stage will reduce the time available to perform the necessary tasks, increasing the risk in a setting where the stakes are already extremely high.

The University determined reasonableness of the price through comparison of their rates to other projects conducted at the University. Rates for M&A (Merger and Acquisition) consultants are generally three times the normal rates based on the following:

- Short time frames – work is often scheduled on short notice with quick turnaround time
- Shorter engagement periods
- Specialized expertise – often experts have to be called in for specialized work
- Higher risks to the contractors because of the high economic stakes inherent in M&A type work

UNIVERSITY OF MINNESOTA

*Office of the Associate Vice
President-Finance & Controller*

*205 West Bank Office Building
1300 S. 2nd Street
Minneapolis, MN 55454*

*Office: 612-625-9529
Fax: 612-625-7384*

November 5, 2015

Tim Bray
Director of Purchasing
Purchasing Services
1300 South 2nd Street
Minneapolis, MN 55454

Dear Tim,

The Office of the Controller would like to request Board of Regents approval on an emergency basis for a contract exceeding \$1,000,000. This request is to Deloitte & Touche, LLP for an estimated \$1,500,000 to provide due diligence consulting services for the proposed integration of Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system.

The Board of Regents of the University of Minnesota approved a non-binding letter of intent on October 9, 2015 to explore combining Fairview Health Services and University of Minnesota Physicians into a fully integrated academic health system (IAHS) called University of Minnesota Health. This calls for Definitive Agreements for the IAHS to be reached by March 2016. Given the timeline imposed by the Regents, it is imperative that the due diligence for the proposed integration begin without further delay. Deloitte & Touche will identify priority deal issues, complete the due diligence required to fully explore these issues and formulate strategies based on these processes in order to protect University interests in this integration. Delay in the contracting stage will reduce the time available to perform the necessary tasks, increasing the risk in a setting where the stakes are already extremely high.

Because the Board of Regents will not be meeting in November 2015, approvals would not be possible until December 2015 under normal procedures. Based on the urgency and short timeline inherent in the academic health integration, we request that this proposed contract be submitted to the Board for approval through the emergency process.

Thank you for your consideration. Please let me know if I can provide any additional information.

Sincerely,



Michael Volna
Associate Vice President, Finance and Controller