

# *University of Minnesota*

*Consolidated Financial Statements for the Years  
Ended June 30, 2012 and 2011, Independent  
Auditors' Report, and Management's Discussion  
and Analysis*

## Financial Report

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**INDEPENDENT AUDITORS' REPORT**The Board of Regents  
University of Minnesota  
Minneapolis, Minnesota

We have audited the accompanying consolidated statements of net assets of the University of Minnesota (the "University") as of June 30, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units. Those financial 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, such financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2012 and 2011, 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, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

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 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.



October 31, 2012

## **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, 2012, 2011, and 2010. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

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

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

The Twin Cities campus is the fourth largest campus in the country in terms of enrollment (approximately 52,000 students) and among the top nine public research institutions nationally. The University is the state's major research institution with expenditures of approximately \$633.2 million, \$625.7 million, and \$631.2 million in fiscal years 2012, 2011, and 2010, respectively, for research under various programs funded by governmental and private sources.

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

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

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

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

### **Mission**

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

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

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

## **Operations**

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

- provides instruction for approximately 68,400 students;
- graduates approximately 15,000 students, 41 percent with graduate or first professional degrees on the Twin Cities campus;
- conducts research sponsored by the National Institutes of Health, the National Science Foundation, other federal, state, and governmental agencies, and numerous private companies and foundations;
- reaches out to more than one million Minnesotans through various outreach and public service activities.

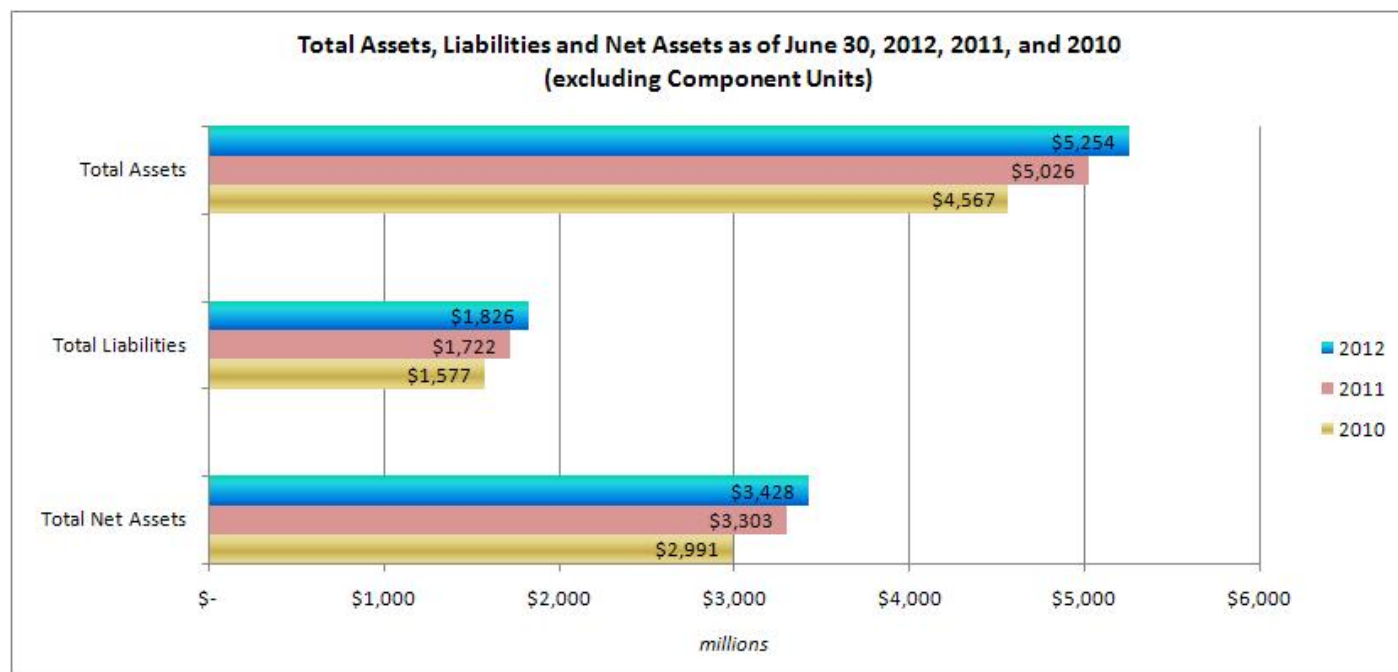
## **Consolidated Financial Statements**

The consolidated financial statements are prepared in accordance with generally accepted accounting principles prescribed by the Governmental Accounting Standards Board (GASB). The consolidated financial statements required under these reporting standards include the Consolidated Statements of Net Assets; the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets; 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.

## **Financial Highlights**

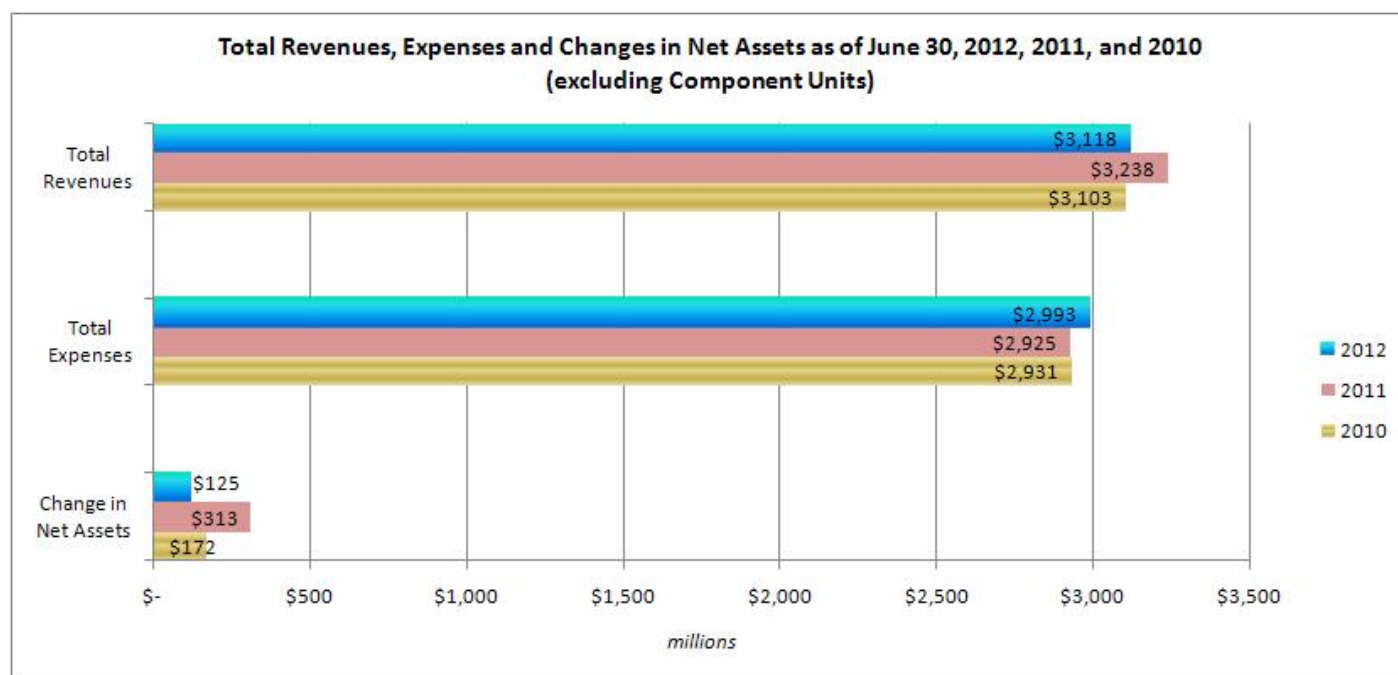
The University's financial position remains strong with assets of \$5.2 billion and liabilities of \$1.8 billion as of June 30, 2012 compared to assets of \$5.0 billion and liabilities of \$1.7 billion as of June 30, 2011. Net Assets, the difference between total assets and total liabilities, increased year over year to \$3.4 billion as of June 30, 2012 compared to \$3.3 billion as of June 30, 2011.

The following chart summarizes total assets, liabilities and net assets for the periods ending June 30, 2012, 2011, and 2010, respectively:



Changes in net assets represents the financial results during the fiscal year and is the difference between total revenue and total expense. Net assets increased \$124.7 million in fiscal year 2012 and \$312.5 million in fiscal year 2011.

The following chart summarizes total revenues, expenses and the change in net assets for the periods ending June 30, 2012, 2011, and 2010, respectively:



Operating revenues increased \$149.9 million or 7.8 percent while operating expenses increased \$62.3 million or 2.2 percent. The result of operations reflects the University's focus on academics, research and public service while continuing to focus on controlling operating expenses.

## Consolidated Statements of Net Assets

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

A comparison of the University's assets, liabilities, and net assets as of June 30, 2012, 2011, and 2010 is summarized in the table below:

Condensed Statement of Net Assets (in thousands)			
	2012	2011	2010
<b>Assets</b>			
Current assets	\$ 585,161	\$ 590,555	\$ 598,999
Noncurrent assets	1,971,938	1,830,151	1,436,397
Capital assets, net	2,696,951	2,605,072	2,531,864
<b>Total assets</b>	<b>5,254,050</b>	<b>5,025,778</b>	<b>4,567,260</b>
<b>Liabilities</b>			
Current liabilities	432,135	428,407	488,549
Noncurrent liabilities	167,583	148,710	131,617
Long-term debt	1,226,389	1,145,419	956,364
<b>Total liabilities</b>	<b>1,826,107</b>	<b>1,722,536</b>	<b>1,576,530</b>
<b>Net assets</b>			
Unrestricted	727,348	607,364	613,688
Restricted—expendable	784,443	802,858	512,126
Restricted—nonexpendable	265,156	253,609	242,541
Invested in capital assets, net of related debt	1,650,996	1,639,411	1,622,375
<b>Total net assets</b>	<b>3,427,943</b>	<b>3,303,242</b>	<b>2,990,730</b>
<b>Total net assets and liabilities</b>	<b>\$ 5,254,050</b>	<b>\$ 5,025,778</b>	<b>\$ 4,567,260</b>

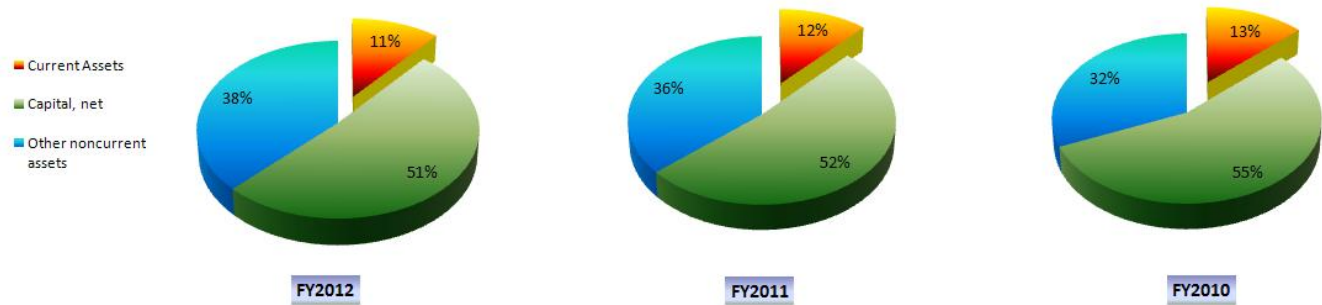
## Assets

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

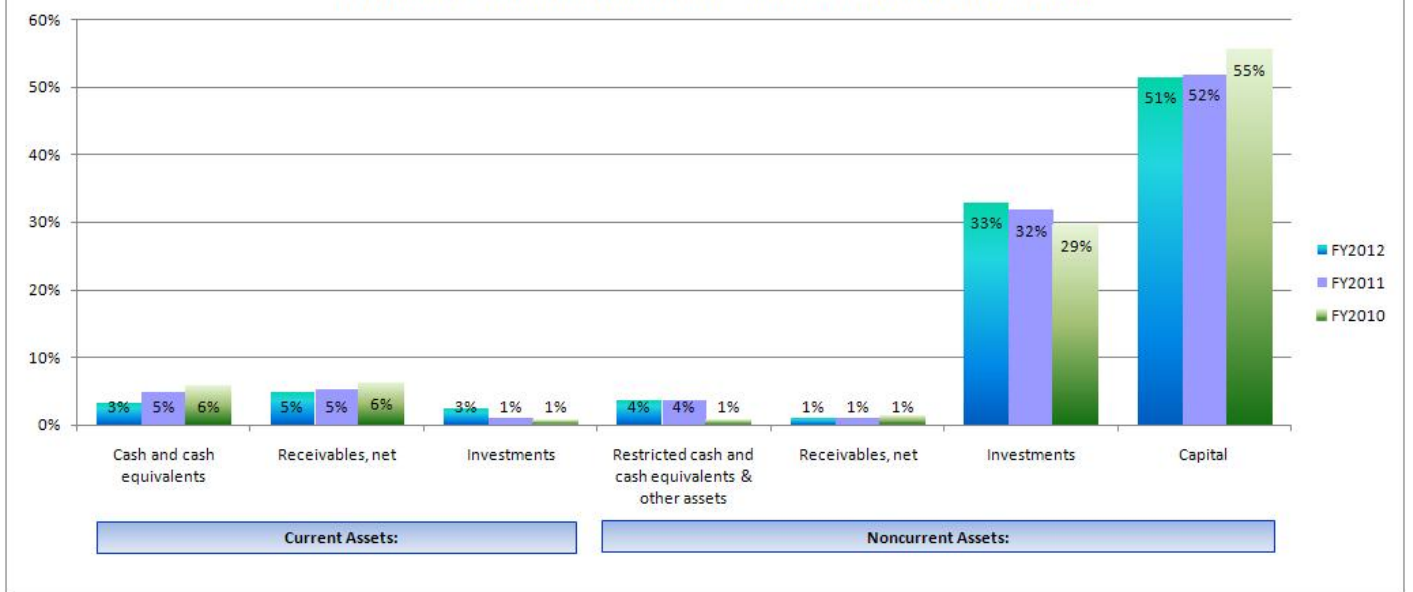
Noncurrent assets consist primarily of investments and capital assets net of accumulated depreciation. Noncurrent receivables consist mainly of student loan receivables scheduled for collection after the current report year.

The following chart illustrates the composition of total assets:

The University's Total Assets as of June 30, 2012, 2011, and 2010



The University's current and noncurrent assets as of June 30, 2012, 2011, and 2010





**The University's current and noncurrent assets on June 30, 2012, 2011, and 2010**

*(in thousands)*

	2012	2011	2010	Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
				Amount	Percent	Amount	Percent
<b>Current assets</b>							
Cash and cash equivalents	\$ 167,751	\$ 243,093	\$ 259,677	\$ (75,342)	(31.0%)	\$ (16,584)	(6.4%)
Receivables, net	251,814	267,514	276,104	(15,700)	(5.9%)	(8,590)	(3.1%)
Investments	133,586	52,265	30,000	81,321	155.6%	22,265	74.2%
Other assets *	32,010	27,683	33,218	4,327	15.6%	(5,535)	(16.7%)
<b>Total current assets</b>	<b>585,161</b>	<b>590,555</b>	<b>598,999</b>	<b>(5,394)</b>	<b>(0.9%)</b>	<b>(8,444)</b>	<b>(1.4%)</b>
<b>Noncurrent assets</b>							
Capital	2,696,951	2,605,072	2,531,864	91,879	3.5%	73,208	2.9%
<b>Other noncurrent assets</b>							
Restricted cash and cash equivalents & other assets	192,781	179,923	34,334	12,858	7.1%	145,589	424.0%
Receivables, net	53,487	54,373	56,096	(886)	(1.6%)	(1,723)	(3.1%)
Investments	1,725,670	1,595,855	1,345,967	129,815	8.1%	249,888	18.6%
<b>Total other noncurrent assets</b>	<b>1,971,938</b>	<b>1,830,151</b>	<b>1,436,397</b>	<b>141,787</b>	<b>7.7%</b>	<b>393,754</b>	<b>27.4%</b>
<b>Total assets</b>	<b>\$ 5,254,050</b>	<b>\$ 5,025,778</b>	<b>\$ 4,567,260</b>	<b>\$ 228,272</b>	<b>4.5%</b>	<b>\$ 458,518</b>	<b>10.0%</b>

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

As of June 30, 2012, total assets increased \$228.3 million primarily due to increases in noncurrent and capital assets. Investments increased \$211.1 million as a result of the University's investment strategy that increases funds going into the temporary investment pools. Consequently, cash and cash equivalents decreased \$62.5 million as less of these funds were held in cash accounts. Noncurrent cash and cash equivalents consist of unspent bond proceeds of \$187.8 million and \$175.9 million in fiscal year 2012 and 2011, respectively. Capital assets, net of accumulated depreciation increased \$91.9 million due to increased spending on construction projects, specifically the Biomedical Discovery District projects.

Subsequent to the issuance of the consolidated financial statements as of and for the year ended June 30, 2011, the University identified adjustments, which resulted in a net overstatement of beginning Unrestricted Net Assets and an overstatement of Investments. The University determined that at the time of the adoption of GASB 51, *Accounting and Financial Reporting for Intangible Assets (GASB 51)*, the amounts recorded for income producing intangible assets should have reduced to reflect accumulated amortization through the effective date of adoption. As a result of improved data available from the InfoEd software system related to patents, the University has corrected the accompanying financial statements, retroactive to July 1, 2010, to improve consistency of the 2012 and 2011 financial statements. The net effect of these corrections for fiscal year 2011 is a decrease in beginning Net Assets of \$12.6 million, a decrease in ending Unrestricted Net Assets of \$12.6 million and a decrease in Investments of \$12.6 million. The University believes that the effect of these adjustments is not material to the accompanying financial statements.

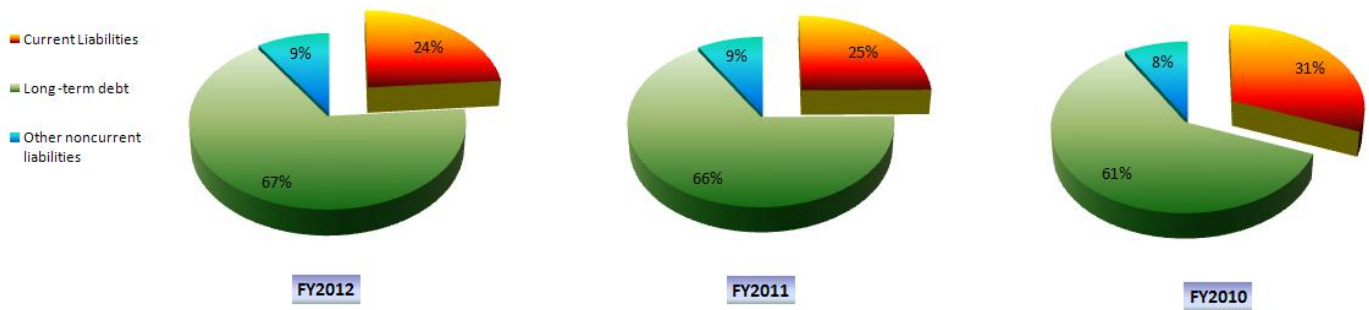
## Liabilities

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.

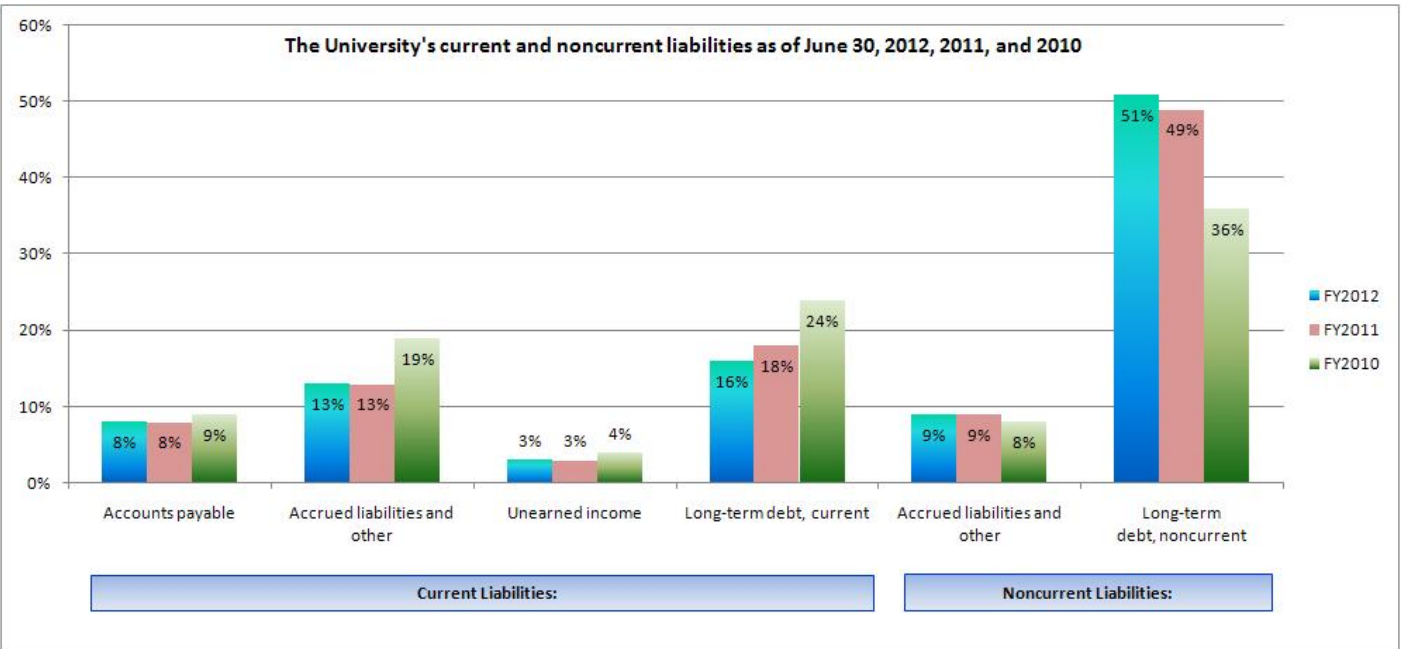
The University's noncurrent liabilities consist primarily of capital obligations, notes payable, leases, and bonds payable (long-term debt). The University's long-term debt represents 67 percent and 66 percent of total liabilities or \$1,226.4 million and \$1,145.4 million as of June 30, 2012 and 2011, respectively.

The following chart illustrates the composition of total liabilities:

The University's Total Liabilities as of June 30, 2012, 2011, and 2010



The University's current and noncurrent liabilities as of June 30, 2012, 2011, and 2010



**The University's current and noncurrent liabilities on June 30, 2012, 2011, and 2010**

*(in thousands)*

	2012	2011	2010	Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
				Amount	Percent	Amount	Percent
<b>Current liabilities</b>							
Accounts payable	\$ 144,073	\$ 141,091	\$ 134,400	\$ 2,982	2.1%	\$ 6,691	5.0%
Accrued liabilities and other	228,360	227,498	293,774	862	0.4%	(66,276)	(22.6%)
Unearned income	59,702	59,818	60,375	(116)	(0.2%)	(557)	(0.9%)
Long-term debt, current	293,941	305,514	377,501	(11,573)	(3.8%)	(71,987)	(19.1%)
<b>Total current liabilities</b>	<b>726,076</b>	<b>733,921</b>	<b>866,050</b>	<b>(7,845)</b>	<b>(1.1%)</b>	<b>(132,129)</b>	<b>(15.3%)</b>
<b>Noncurrent liabilities</b>							
Accrued liabilities and other	167,259	148,213	130,943	19,046	12.9%	17,270	13.2%
Unearned income *	324	497	674	(173)	(34.8%)	(177)	(26.3%)
Long-term debt, noncurrent	932,448	839,905	578,863	92,543	11.0%	261,042	45.1%
<b>Total noncurrent liabilities</b>	<b>1,100,031</b>	<b>988,615</b>	<b>710,480</b>	<b>111,416</b>	<b>11.3%</b>	<b>278,135</b>	<b>39.1%</b>
<b>Total liabilities</b>	<b>\$ 1,826,107</b>	<b>\$ 1,722,536</b>	<b>\$ 1,576,530</b>	<b>\$ 103,571</b>	<b>6.0%</b>	<b>\$ 146,006</b>	<b>9.3%</b>

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

As of June 30, 2012, total liabilities increased \$103.6 million primarily due to an increase in long-term debt of \$81.0 million or 7.1 percent due to the issuance of General Obligation Bonds Series 2011C and 2011D and Special Purpose Revenue Bonds Series 2011B. Accrued liabilities increased \$20.0 million due to the gradual amortization of the University's full liability related to other post employment benefits (OPEB). The University recorded an OPEB liability of \$18.9 million in fiscal year 2012 and \$10.6 million in fiscal year 2011. As of June 30, 2012, the cumulative OPEB liability of \$63.0 million was recorded as a current liability of \$6.7 million and a noncurrent liability of \$56.3 million.

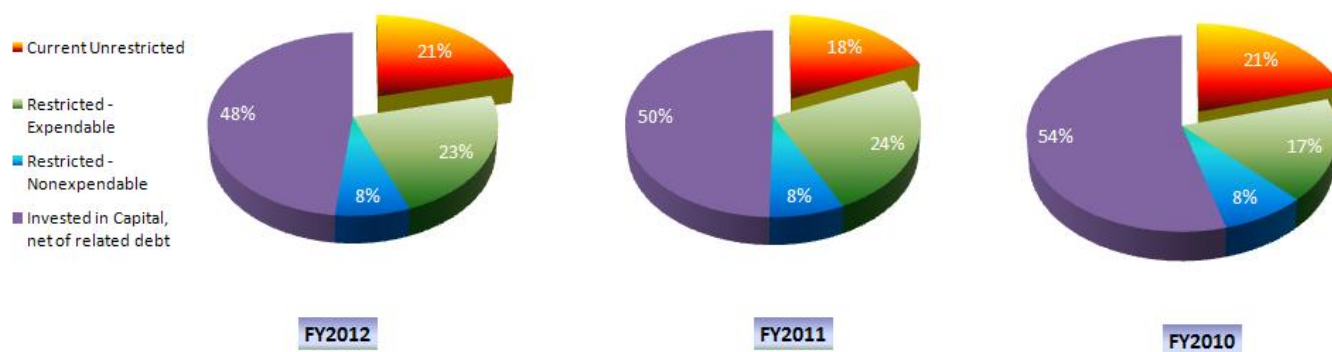
## Net Assets

Net assets represent the residual value of the University's assets after deducting liabilities and consist of the following four classifications:

- **Unrestricted net assets**, which 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 assets, 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.
- **Invested in capital assets, net of related debt**, which includes property, plant, and equipment, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these capital assets.

The following chart illustrates the composition of total net assets:

The University's Total Net Assets as of June 30, 2012, 2011, and 2010



The University's total net assets on June 30, 2012, 2011, and 2010

(in thousands)

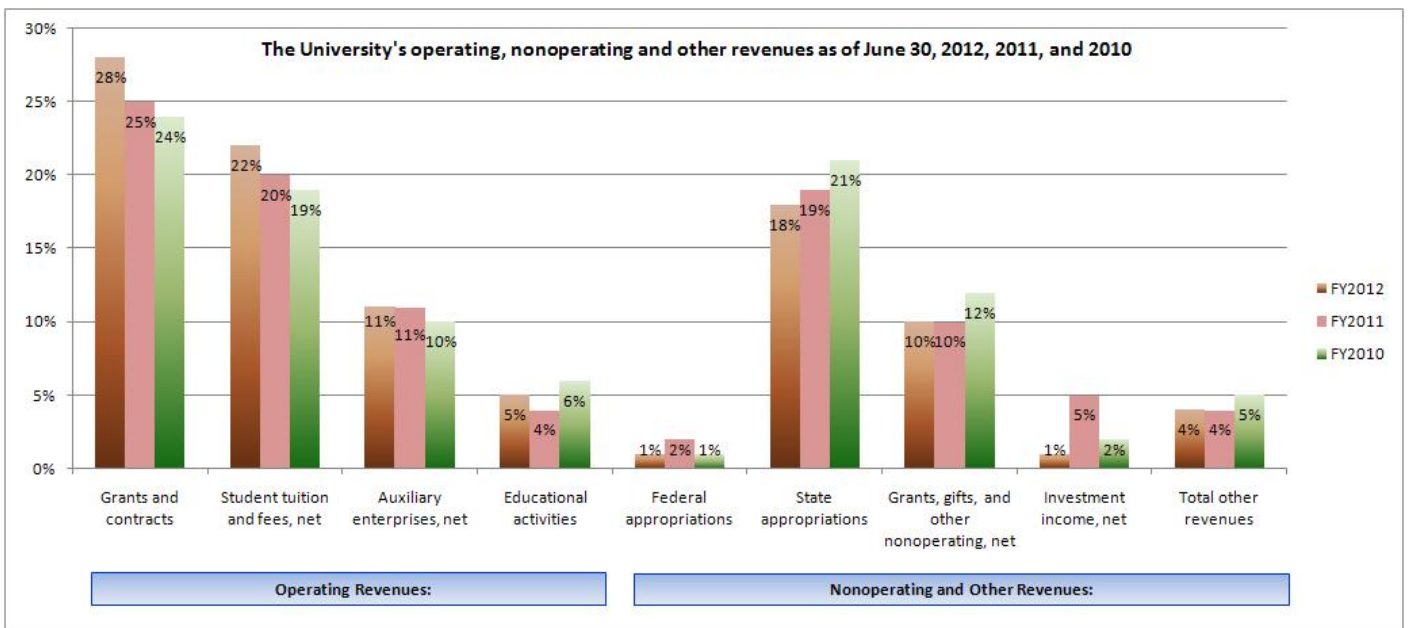
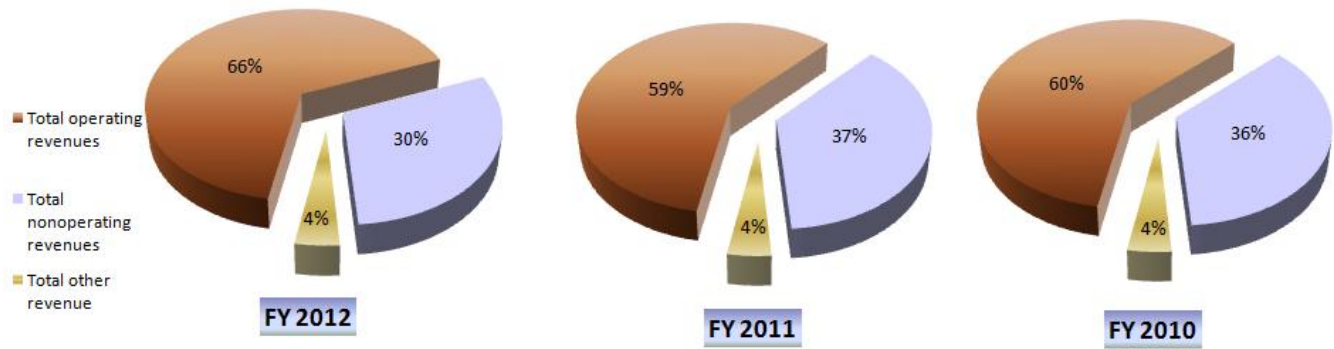
				Increase (Decrease)			
	2012	2011	2010	From 2011 to 2012		From 2010 to 2011	
				Amount	Percent	Amount	Percent
Unrestricted	\$ 727,348	\$ 607,364	\$ 613,688	\$ 119,984	19.8%	\$ (6,324)	(1.0%)
Restricted:							
Expendable	784,443	802,858	512,126	(18,415)	(2.3%)	290,732	56.8%
Nonexpendable	265,156	253,609	242,541	11,547	4.6%	11,068	4.6%
Invested in capital assets, net of related debt	1,650,996	1,639,411	1,622,375	11,585	0.7%	17,036	1.1%
<b>Total net assets</b>	<b>\$ 3,427,943</b>	<b>\$ 3,303,242</b>	<b>\$ 2,990,730</b>	<b>\$ 124,701</b>	<b>3.8%</b>	<b>\$ 312,512</b>	<b>10.4%</b>

Restricted expendable net assets decreased \$18.4 million in fiscal year 2012 compared to an increase of \$290.7 million in fiscal year 2011 due to changes in market value related to endowments.

### Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets 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. As of June 30, 2012, operating revenues were 66 percent and 59 percent of total revenues for fiscal year 2012 and 2011, respectively.

**The University's Revenues as of June 30, 2012, 2011, and 2010**



**The University's operating, nonoperating and other revenue for the years ended June 30, 2012, 2011, and 2010**

*(in thousands)*

				Increase (Decrease)			
	2012	2011	2010	From 2011 to 2012		From 2010 to 2011	
				Amount	Percent	Amount	Percent
<b>Operating revenues</b>							
Grants and contracts	\$ 858,810	\$ 817,045	\$ 746,870	\$ 41,765	5.1%	\$ 70,175	9.4%
Student tuition and fees, net	696,278	634,042	576,363	62,236	9.8%	57,679	10.0%
Auxiliary enterprises, net	351,571	345,537	324,068	6,034	1.7%	21,469	6.6%
Educational activities	162,096	119,830	200,751	42,266	35.3%	(80,921)	(40.3%)
Other operating revenue *	162	2,606	2,304	(2,444)	(93.8%)	302	13.1%
<b>Total operating revenues</b>	<b>2,068,917</b>	<b>1,919,060</b>	<b>1,850,356</b>	<b>149,857</b>	<b>7.8%</b>	<b>68,704</b>	<b>3.7%</b>
<b>Nonoperating revenues</b>							
Federal appropriations	15,145	69,416	64,948	(54,271)	(78.2%)	4,468	6.9%
State appropriations	572,075	623,300	651,350	(51,225)	(8.2%)	(28,050)	(4.3%)
Grants, gifts, and other nonoperating, net	322,010	319,755	333,762	2,255	0.7%	(14,007)	(4.2%)
Investment income, net	36,895	180,865	54,801	(143,970)	(79.6%)	126,064	230.0%
<b>Total nonoperating revenues</b>	<b>946,125</b>	<b>1,193,336</b>	<b>1,104,861</b>	<b>(247,211)</b>	<b>(20.7%)</b>	<b>88,475</b>	<b>8.0%</b>
<b>Total other revenues</b>	<b>103,353</b>	<b>122,732</b>	<b>147,576</b>	<b>(19,379)</b>	<b>(15.8%)</b>	<b>(24,844)</b>	<b>(16.8%)</b>
<b>Total revenues</b>	<b>\$ 3,118,395</b>	<b>\$ 3,235,128</b>	<b>\$ 3,102,793</b>	<b>\$ (116,733)</b>	<b>(3.6%)</b>	<b>\$ 132,335</b>	<b>4.3%</b>

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

Total revenues decreased in fiscal year 2012 by \$116.7 million predominately due to decreases in investment income due to market fluctuations. The decreases were partially offset by increases in operating revenues. Effective September 30, 2011, the American Recovery and Reinvestment Act (ARRA) program ended. As a result, the University received \$49.6 million less in stimulus funds compared to fiscal year 2011 resulting in a decrease in Federal appropriations. Operating revenues increased \$149.9 million or 7.8 percent mainly due to increases in student tuition and fees and educational activities. Revenues from sales and services of educational activities increased \$42.3 million mainly due to increased royalty receipts from sales of products using University patents and technology.

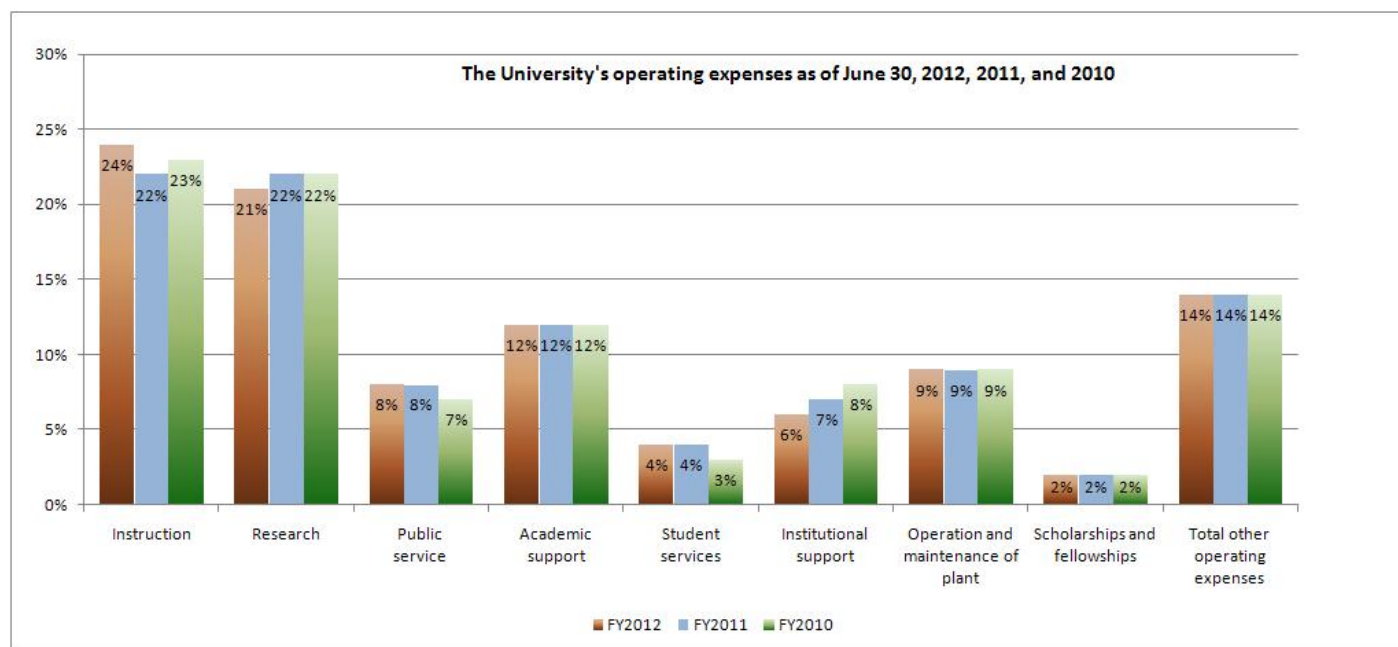
State appropriations decreased to \$572.1 million in fiscal year 2012 from \$623.3 million in fiscal year 2011. The decrease of \$51.2 million or 8.2 percent was predominately due to a decrease in the appropriation base. State appropriations, in addition to other sources of unrestricted revenue (tuition and educational and auxiliary activities) and nonoperating grants, 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 \$143.0 million, \$147.6 million, and \$126.0 million, and grants and gifts for capital purposes of \$31.3 million, \$44.8 million, and \$41.0 million in fiscal years 2012, 2011, and 2010, respectively.

As of June 30, 2012, other revenues, which consist of capital appropriations, and capital grants and gifts, and additions to permanent endowments gifts and grants decreased \$19.4 million or 15.8 percent in fiscal year 2012 compared to a decrease of \$24.8 million or 16.8 percent in fiscal year 2011.



## Total Operating Expenses



**The University's total operating expenses by functional category for the years ended June 30, 2012, 2011, and 2010**  
(in thousands)

	2012	2011	2010	Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
				Amount	Percent	Amount	Percent
<b>Education and general</b>							
Instruction	\$696,217	\$668,042	\$680,469	\$28,175	4.2%	(\$12,427)	(1.8%)
Research	633,199	625,655	631,206	7,544	1.2%	(5,551)	(0.9%)
Public service	245,488	225,701	213,759	19,787	8.8%	11,942	5.6%
Academic support	360,626	359,816	362,163	810	0.2%	(2,347)	(0.6%)
Student services	106,152	104,863	101,371	1,289	1.2%	3,492	3.4%
Institutional support	189,040	193,997	234,308	(4,957)	(2.6%)	(40,311)	(17.2%)
Operation and maintenance of plant	254,553	264,888	243,121	(10,335)	(3.9%)	21,767	9.0%
Scholarships and fellowships	52,014	52,310	50,798	(296)	(0.6%)	1,512	3.0%
<b>Total Education and General</b>	<b>2,537,289</b>	<b>2,495,272</b>	<b>2,517,195</b>	<b>42,017</b>	<b>1.7%</b>	<b>(21,923)</b>	<b>(0.9%)</b>
<b>Other operating expenses</b>							
Depreciation	183,875	163,689	169,524	20,186	12.3%	(5,835)	(3.4%)
Auxiliary enterprises	227,397	226,996	213,201	401	0.2%	13,795	6.5%
Other operating expenses, net	(195)	67	469	(262)	(391.0%)	(402)	(85.7%)
<b>Total other operating expenses</b>	<b>411,077</b>	<b>390,752</b>	<b>383,194</b>	<b>20,325</b>	<b>5.2%</b>	<b>7,558</b>	<b>2.0%</b>
<b>Total operating expenses</b>	<b>\$2,948,366</b>	<b>\$2,886,024</b>	<b>\$2,900,389</b>	<b>\$62,342</b>	<b>2.2%</b>	<b>\$ (14,365)</b>	<b>(0.5%)</b>

Total operating expenses increased \$62.3 million or 2.2 percent in fiscal year 2012 compared to fiscal year 2011. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at \$1.9 billion or 64.5 percent, \$1.9 billion or 65.3 percent, and \$1.9 billion or 64.3 percent of operating expenses in fiscal years 2012, 2011 and 2010, respectively. Compensation related expenditures increased \$17.0 million or 0.9 percent in fiscal year 2012 and \$21.2 million or 1.1 percent in fiscal year 2011. Public service increased percentage-wise more than the other categories of operating expenses due to increased spending on sponsored projects.

## Consolidated Statements of Cash Flows

The University's cash flows for the years ended June 30, 2012, 2011, and 2010 (in thousands)							
	2012	2011	2010	Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
				Amount	Percent	Amount	Percent
<b>Cash provided by (used in)</b>							
Operating activities	\$ (659,788)	\$ (847,949)	\$ (850,405)	\$ 188,161	(22.2%)	\$ 2,456	(0.3%)
Noncapital financing activities	913,558	1,027,484	1,066,517	(113,926)	(11.1%)	(39,033)	(3.7%)
Capital and related financing activities	(140,030)	45,972	(148,008)	(186,002)	(404.6%)	193,980	(131.1%)
Investing activities	(177,252)	(97,055)	(103,844)	(80,197)	82.6%	6,789	(6.5%)
<b>Net increase (decrease) in cash</b>	<b>(63,512)</b>	<b>128,452</b>	<b>(35,740)</b>	<b>(191,964)</b>	<b>(149.4%)</b>	<b>164,192</b>	<b>(459.4%)</b>
<b>Cash, beginning of year</b>	<b>419,032</b>	<b>290,580</b>	<b>326,320</b>	<b>128,452</b>	<b>44.2%</b>	<b>(35,740)</b>	<b>(11.0%)</b>
<b>Cash, end of year</b>	<b>\$ 355,520</b>	<b>\$ 419,032</b>	<b>\$ 290,580</b>	<b>\$ (63,512)</b>	<b>(15.2%)</b>	<b>\$ 128,452</b>	<b>44.2%</b>

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

As illustrated in above table, the University's cash and cash equivalents decreased \$63.5 million due to the use of funds by operating activities, investing activities and capital and related financing activities, partially offset by cash inflows from noncapital financing activities. The cash used by capital and financing activities decreased \$186.0 million as a result of reduced proceeds from new bond issuances. During fiscal year 2012, the University issued \$138.2 million in new bond issuances compared to \$534.6 million in fiscal year 2011. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling \$546.1 million and \$615.1 million, grants totaling \$174.7 million and \$192.3 million and gifts total \$142.2 million and \$147.1 million in 2012 and 2011, 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 a decrease from net unrealized losses on the endowment and other investments of \$39.2 million in fiscal year 2012 compared to an increase of \$122.6 million in fiscal year 2011. In addition, decreases of \$47.0 million and \$48.4 million in 2012 and 2011, respectively, related to annual distributions of the endowment to departments, partially offset by reinvested endowment earnings.

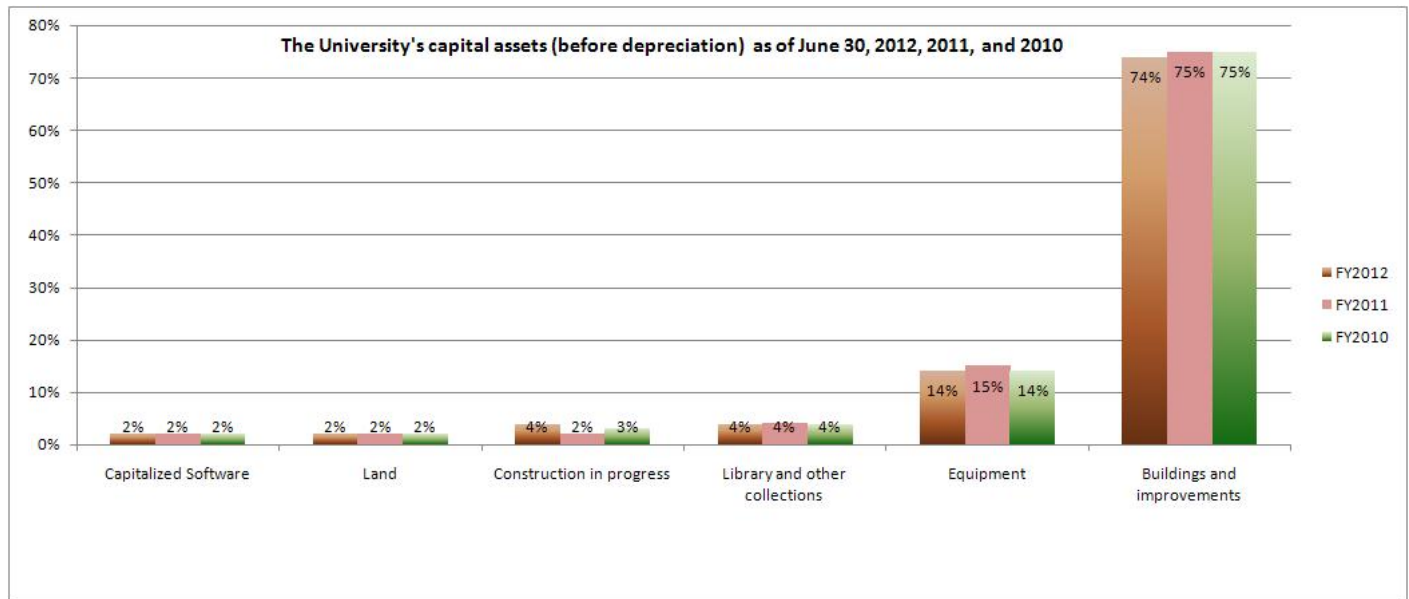
To provide a relatively stable level of support for endowed programs, a specified percentage rate based on a five-year, moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and



academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.5 percent in fiscal years 2012 and 2011.

## Capital and Debt Activities

The following chart illustrates the composition of capital assets before depreciation:



**The University's capital asset categories (before depreciation) for the years ended June 30, 2012, 2011, and 2010**  
(in thousands)

	2012	2011	2010	Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
				Amount	Percent	Amount	Percent
<b>Capital assets (gross)</b>							
Buildings and improvements	\$ 3,760,552	\$ 3,655,566	\$ 3,471,517	\$ 104,986	2.9%	\$ 184,049	5.3%
Equipment	721,675	718,422	663,474	3,253	0.5%	54,948	8.3%
Library and other collections	191,117	174,965	169,334	16,152	9.2%	5,631	3.3%
Construction in progress	186,973	100,413	140,347	86,560	86.2%	(39,934)	(28.5%)
Land	90,189	87,416	85,218	2,773	3.2%	2,198	2.6%
Software and other intangibles	116,422	106,879	100,617	9,543	8.9%	6,262	6.2%
<b>Total capital assets (gross)</b>	<b>\$ 5,066,928</b>	<b>\$ 4,843,661</b>	<b>\$ 4,630,507</b>	<b>\$ 223,267</b>	<b>4.6%</b>	<b>\$ 213,154</b>	<b>4.6%</b>

Gross capital assets increased over the past three fiscal years. The major building project completed in fiscal year 2012 was the Griggs Hall Dormitory Addition (UMD).

Capital additions totaled \$277.0 million, \$242.3 million, and \$237.2 million in fiscal year 2012, 2011, and 2010, respectively. Fiscal year 2012 spending included the Biomedical Discovery District projects, Northrop Interior Renovation, the University Recreation Center Expansion and the Physics and Nanotech Building. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Fiscal year 2012 activity included the issuance of the second tranche of debt related to the Biomedical Science Research Facilities Funding Program established for the renovation and expansion of the University's Biomedical Discovery District. Total combined proceeds of \$77.2 million from the special

purpose revenue bonds, Series 2011B, and general obligation taxable bonds, Series 2011C, will be used to fund a portion of the costs of construction and completion of a new building devoted to cancer and cardiovascular research and associated infrastructure within the Biomedical Discovery District.

In addition, general obligation bond, Series 2011D, in the par amount of \$53.6 million was issued for various capital projects. Capital leases of \$1.9 million and \$1.8 million were issued in fiscal year 2012 and 2011, respectively. Refer to Note 5 for additional information.

### **Factors Affecting Future Economic Conditions**

July 1, 2012 marked the first anniversary of Eric Kaler (Ph.D. '82) as the 16th president of the University. President Kaler entered the presidency of the University at a time of great challenges, significant past progress, and a new resolve on the part of the University community to advance the excellence of the institution. As President Kaler enters the second year of his presidency, he also faces the development of his first state biennial budget request. The University traditionally returns to the state legislature in odd numbered years for operating budget support and even numbered years for capital budget appropriations. The University will request operating budget support during the upcoming 2013 legislative session.

A framework for operating budget support has been established and the goals and priorities are clearly outlined. First and foremost is the concept of excellence in all that the University does: excellence in teaching and learning, innovation and discovery, advancing operational excellence, relevant and vital public engagement, and an affordable education for qualified Minnesota students. This framework has guided the development of President Kaler's first operating budget request.

President Kaler's biennial operating budget request for fiscal years 2014 and 2015 to the State of Minnesota calls for 5 critical initiatives:

1. Renewing the University's partnership with the State through a funding request of \$42.6 million over the next two fiscal years with a commitment on the part of the University to hold Minnesota undergraduate tuition increase to zero percent, thus saving a Minnesota resident undergraduate on the Twin-Cities campus more than \$2,500 over the next four years.
2. A proposal to the State of Minnesota to establish a new Minnesota Discovery, Research and InnoVation Economy (MNDRIVE) funding program at a cost of \$36.0 million over the next two years.
3. Establishing a new performance and accountability program built around the University meeting 3 of 5 performance goals in order to receive \$11.5 million in new state funding in the second year of the biennium.
4. A new \$1.5 million University of Minnesota administered loan forgiveness program targeted to students willing to work as a health care professional for at least 3 years in an underserved area of Minnesota.
5. A commitment to internally reallocate 5 percent or approximately \$28.0 million of the University's current \$543.3 million funding level provided by the State of Minnesota.

The University's MNDRIVE program request envisions funding of four strategic research opportunities designed to advance Minnesota's economy, leverage Minnesota's strengths and comparative advantage, improve Minnesotans' health and quality of life, advance the capacity and competitiveness of Minnesota industries, and position the state as a national leader in key industries. The MNDRIVE program is a multi-year strategy with an initial focus on supporting robotics, sensors and advanced manufacturing; securing the global food supply; advancing industry and conserving our environment; and advancing discoveries and treatments for brain conditions.

If the University's budget request is granted, our annual state support in 2015 will stand at \$604.0 million which would be equivalent to the level of support provided to the University in 2001 (not adjusted for inflation). The University's current level of state appropriations support in 2012 is equal to the amount the University received in 1998.

The University of Minnesota continues to make substantial progress. The recent financial downturn and the subsequent slow economic recovery have created meaningful challenges for the nation, the state of Minnesota, and the University of Minnesota. Human capital and innovation are critical to economic growth, and the University of Minnesota is well positioned to contribute to, and advance Minnesota's economy and quality of life.

**University of Minnesota**  
**Consolidated Statements of Net Assets (Excluding Component Units)**  
June 30, 2012 and 2011 (in thousands)

		2012	2011
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$	167,751	\$ 243,093
Short-term investments		133,586	52,265
Receivables, net		242,949	258,791
Inventories		23,325	23,972
Student loans receivable, net		8,865	8,723
Prepaid expenses and deferred charges		8,464	3,490
Other assets		221	221
Total current assets		585,161	590,555
Noncurrent assets			
Restricted cash and cash equivalents		187,769	175,939
Investments		1,725,670	1,595,855
Receivables, net		548	562
Student loan receivables, net		52,939	53,811
Prepaid expenses and deferred charges		4,999	3,957
Other assets		13	27
Capital assets, net		2,696,951	2,605,072
Total noncurrent assets		4,668,889	4,435,223
Total assets		5,254,050	5,025,778
<b>Liabilities</b>			
Current liabilities			
Accounts payable		144,073	141,091
Accrued liabilities and other		228,360	227,498
Unearned income		59,702	59,818
Long-term debt-current portion		293,941	305,514
Total current liabilities		726,076	733,921
Noncurrent liabilities			
Accrued liabilities and other		167,259	148,213
Unearned income		324	497
Long-term debt		932,448	839,905
Total noncurrent liabilities		1,100,031	988,615
Total liabilities		1,826,107	1,722,536
<b>Net Assets</b>			
Unrestricted		727,348	607,364
Restricted	Expendable	784,443	802,858
	Nonexpendable	265,156	253,609
Invested in capital assets, net of related debt		1,650,996	1,639,411
Total net assets	\$	3,427,943	\$ 3,303,242

See notes to consolidated financial statements.

**University of Minnesota**  
**Component Units - Statements of Financial Position**  
June 30, 2012 and 2011 (in thousands)

	<b>University of Minnesota Foundation</b>		<b>Minnesota Medical Foundation</b>	
	2012	2011	2012	2011
<b>Assets</b>				
Cash and cash equivalents	\$14,665	\$9,269	\$17	\$243
Investments, substantially at fair market value	1,499,991	1,511,556	288,626	304,159
Investments held for unitrusts, annuity trusts, and gift annuities			9,670	11,005
Investments designated for endowments				
Investments loaned to broker			3,441	4,032
Investments collateral			1,877	2,497
Pledges receivable, net	88,877	74,149	101,132	102,837
Accounts and other receivables	25,604	17,450	8,092	1,242
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	54,030	55,519	37,654	30,074
Gift annuities	33,784	32,164		
Interest in the net assets of related parties				
Due from affiliated parties				
Property and equipment, net	28,471	27,987	700	763
Prepays and other assets			139	226
Total assets	1,745,422	1,728,094	451,348	457,078
<b>Liabilities</b>				
Accounts payable and accrued liabilities	10,882	10,832	2,622	2,316
Deferred revenue and gains			263	244
Gift annuities payable	19,742	18,745		
Split-interest agreement liabilities			6,013	6,384
Unitrusts, pooled income, and annuity trusts payable	8,235	10,290		
Investments held for custody of others	201,300	207,485	1,263	1,409
Payable under investment loan agreement			3,510	4,120
Bonds and capital lease payable				
Total liabilities	240,159	247,352	13,671	14,473
<b>Net Assets</b>				
Unrestricted	55,799	56,220	18,766	12,928
Temporarily restricted	836,395	835,677	213,508	226,006
Permanently restricted	613,069	588,845	205,403	203,671
Total net assets	1,505,263	1,480,742	437,677	442,605
Total liabilities and net assets	\$1,745,422	\$1,728,094	\$451,348	\$457,078

*See notes to consolidated financial statements.*

**University of Minnesota**  
**Component Units - Statements of Financial Position**  
June 30, 2012 and 2011 (in thousands)

	<b>Minnesota Landscape Arboretum Foundation</b>		<b>Minnesota 4-H Foundation</b>	
	2012	2011	2012	2011
<b>Assets</b>				
Cash and cash equivalents	\$1,406	\$810	\$424	\$1,044
Investments, substantially at fair market value	444	433	7,982	7,751
Investments held for unitrusts, annuity trusts, and gift annuities				
Investments designated for endowments	24,680	25,266		
Investments loaned to broker				
Investments collateral				
Pledges receivable, net	318	889	259	28
Accounts and other receivables	-	470	16	32
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	141	198	24	24
Gift annuities				
Interest in the net assets of related parties				
Due from affiliated parties				
Property and equipment, net			7	3
Prepays and other assets			11	6
Total assets	26,989	28,066	8,723	8,888
<b>Liabilities</b>				
Accounts payable and accrued liabilities	3,634	3,585	92	150
Deferred revenue and gains	565	544	-	61
Gift annuities payable				
Split-interest agreement liabilities				
Unitrusts, pooled income, and annuity trusts payable				
Investments held for custody of others			1,848	1,516
Payable under investment loan agreement				
Bonds and capital lease payable				
Total liabilities	4,199	4,129	1,940	1,727
<b>Net Assets</b>				
Unrestricted	162	980	275	296
Temporarily restricted	6,204	6,923	4,582	5,036
Permanently restricted	16,424	16,034	1,926	1,829
Total net assets	22,790	23,937	6,783	7,161
Total liabilities and net assets	\$26,989	\$28,066	\$8,723	\$8,888

*See notes to consolidated financial statements.*

**University of Minnesota**  
**Component Units - Statements of Financial Position**  
June 30, 2012 and 2011 (in thousands)

	<b>University of Minnesota Physicians</b>		<b>University of Minnesota Alumni Association</b>	
	2012	2011	2012	2011
<b>Assets</b>				
Cash and cash equivalents	\$28,561	\$12,092	\$247	\$362
Investments, substantially at fair market value	27,062	26,559	22,600	23,238
Investments held for unitrusts, annuity trusts, and gift annuities				
Investments designated for endowments				
Investments loaned to broker				
Investments collateral				
Pledges receivable, net				
Accounts and other receivables	80,795	79,736	168	91
Interest in charitable lead trusts, unitrusts, pooled income, and trusts				
Gift annuities				
Interest in the net assets of related parties				
Due from affiliated parties			204	25
Property and equipment, net	14,253	12,216	237	265
Prepays and other assets	3,163	3,249	287	317
Total assets	153,834	133,852	23,743	24,298
<b>Liabilities</b>				
Accounts payable and accrued liabilities	69,458	54,753	148	106
Deferred revenue and gains	13,556	13,556	4,253	4,025
Gift annuities payable				
Split-interest agreement liabilities				
Unitrusts, pooled income, and annuity trusts payable				
Investments held for custody of others				
Payable under investment loan agreement				
Bonds and capital lease payable				
Total liabilities	83,014	68,309	4,401	4,131
<b>Net Assets</b>				
Unrestricted	70,820	65,543	18,622	19,434
Temporarily restricted			539	552
Permanently restricted			181	181
Total net assets	70,820	65,543	19,342	20,167
Total liabilities and net assets	\$153,834	\$133,852	\$23,743	\$24,298

*See notes to consolidated financial statements.*

**University of Minnesota**  
**Component Units - Statements of Financial Position**  
June 30, 2012 and 2011 (in thousands)

	<b>University Gateway Corporation</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Cash and cash equivalents	\$1,129	\$1,292
Investments, substantially at fair market value		
Investments held for unitrusts, annuity trusts, and gift annuities		
Investments designated for endowments		
Investments loaned to broker		
Investments collateral		
Pledges receivable, net		
Accounts and other receivables	347	107
Interest in charitable lead trusts, unitrusts, pooled income, and trusts		
Gift annuities		
Interest in the net assets of related parties	23,782	23,604
Due from affiliated parties		
Property and equipment, net	17,182	17,333
Prepays and other assets	31,876	32,776
<b>Total assets</b>	<b>74,316</b>	<b>75,112</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	4,403	2,954
Deferred revenue and gains		
Gift annuities payable		
Split-interest agreement liabilities		
Unitrusts, pooled income, and annuity trusts payable		
Investments held for custody of others		
Payable under investment loan agreement		
Bonds and capital lease payable	52,558	53,182
<b>Total liabilities</b>	<b>56,961</b>	<b>56,136</b>
<b>Net Assets</b>		
Unrestricted	17,354	18,975
Temporarily restricted	1	1
Permanently restricted		
<b>Total net assets</b>	<b>17,355</b>	<b>18,976</b>
<b>Total liabilities and net assets</b>	<b>\$74,316</b>	<b>\$75,112</b>

*See notes to consolidated financial statements.*



**University of Minnesota**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**  
**(Excluding Component Units)**  
Years ended June 30, 2012 and 2011 (in thousands)

		2012	2011
<b>Revenues</b>			
Operating revenues	Student tuition and fees, net of scholarship allowances of \$232,301 in 2012; \$239,131 in 2011	\$ 696,278	\$ 634,042
	Federal grants and contracts	510,687	491,723
	State and other government grants	59,631	60,320
	Nongovernmental grants and contracts	288,492	265,002
	Student loan interest income	1,866	1,960
	Sales and services of educational activities, net of scholarship allowances of \$41 in 2012; \$60 in 2011	160,230	117,870
	Auxiliary enterprises, net of scholarship allowances of \$8,839 in 2012; \$12,674 in 2011	351,571	345,537
	Other operating revenues	162	2,606
Total operating revenues		2,068,917	1,919,060
<b>Expenses</b>			
Operating expenses	Education and general		
	Instruction	696,217	668,042
	Research	633,199	625,655
	Public service	245,488	225,701
	Academic support	360,626	359,816
	Student services	106,152	104,863
	Institutional support	189,040	193,997
	Operation and maintenance of plant	254,553	264,888
	Scholarships and fellowships	52,014	52,310
	Depreciation	183,875	163,689
	Auxiliary enterprises	227,397	226,996
	Other operating expenses, net	(195)	67
Total operating expenses		2,948,366	2,886,024
<b>Operating Loss</b>		(879,449)	(966,964)
<b>Nonoperating Revenues (Expenses)</b>			
	Federal appropriations	15,145	69,416
	State appropriations	572,075	623,300
	Grants	176,656	174,534
	Gifts	143,000	147,582
	Investment income, net	36,895	180,865
	Interest on capital-asset related debt	(45,328)	(36,592)
	Other nonoperating revenues (expenses), net	2,354	(2,361)
Net nonoperating revenues		900,797	1,156,744
<b>Income Before Other Revenues</b>		21,348	189,780
	Capital appropriations	60,570	75,801
	Capital grants and gifts	31,349	44,813
	Additions to permanent endowments	11,434	2,118
Total other revenues		103,353	122,732
<b>Increase In Net Assets</b>		124,701	312,512
Net assets at beginning of year		3,303,242	2,990,730
Net assets at end of year		\$ 3,427,943	\$ 3,303,242

See notes to consolidated financial statements.

# University of Minnesota

## Component Units - Statement of Activities

Year ended June 30, 2012

(with summarized information for the year ended June 30, 2011) (in thousands)

	University of Minnesota Foundation			Total	
	Unrestricted	Temporarily restricted	Permanently restricted	2012	2011
<b>Revenues</b>					
Contributions	\$490	\$110,897	\$23,581	\$134,968	\$116,069
Investment income, net	1,874	7,054	40	8,968	7,448
Net realized and unrealized gains (losses) on investments	(1,884)	17,038		15,154	204,622
Change in value of trusts		(397)	603	206	7,801
Support services revenue	2,327			2,327	2,411
UMF - Dinnaken Housing, LLC rental revenue	5,141			5,141	2,865
Other revenue	940			940	1,139
Net assets released from restriction	133,874	(133,874)		-	-
Total revenues	142,762	718	24,224	167,704	342,355
<b>Expenses</b>					
Program services					
Distributions for educational purposes	115,024			115,024	107,023
Support services					
Management and general	7,962			7,962	6,934
Fund-raising	15,492			15,492	14,848
UMF - Dinnaken Housing, LLC	4,705			4,705	2,619
Total expenses	143,183	-	-	143,183	131,424
Increase (decrease) in net assets	(421)	718	24,224	24,521	210,931
Net assets at beginning of year	56,220	835,677	588,845	1,480,742	1,269,811
Net assets at end of year	\$55,799	\$836,395	\$613,069	\$1,505,263	\$1,480,742

See notes to consolidated financial statements.

**University of Minnesota**
**Component Units - Statement of Activities**

Year ended June 30, 2012

(with summarized information for the year ended June 30, 2011) (in thousands)

	<b>Minnesota Medical Foundation</b>			<b>Total</b>	
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>					
Contributions	\$2,889	\$48,120	\$9,181	\$60,190	\$68,555
Investment income (loss), net	(236)	(3,481)	(8,097)	(11,814)	42,083
Judgment revenue	7,316			7,316	-
Change in value of split-interest agreements		(205)	8,607	8,402	3,888
Service charges	3,677	(1,564)	(2,048)	65	73
Receipts from affiliated parties	5,145	(247)	75	4,973	5,414
Spending allocation	11	7,356	(7,367)	-	-
Change in donor restrictions		(1,116)	1,116	-	-
Net assets released from restriction	61,096	(61,361)	265	-	-
Total revenues	79,898	(12,498)	1,732	69,132	120,013
<b>Expenses</b>					
Program services					
Research and education grants	50,006			50,006	42,831
Building and equipment grants	7,623			7,623	8,805
Communications	583			583	517
Student aid and scholarships	2,239			2,239	2,046
Honor and award grants	501			501	694
Alumni and sponsored events	1,117			1,117	1,029
Support services					
Management and general	3,917			3,917	4,162
Fund-raising	8,074			8,074	8,041
Total expenses	74,060	-	-	74,060	68,125
Increase (decrease) in net assets	5,838	(12,498)	1,732	(4,928)	51,888
Net assets at beginning of year	12,928	226,006	203,671	442,605	390,717
Net assets at end of year	\$18,766	\$213,508	\$205,403	\$437,677	\$442,605

*See notes to consolidated financial statements.*

**University of Minnesota**
**Component Units - Statement of Activities**

Year ended June 30, 2012

(with summarized information for the year ended June 30, 2011) (in thousands)

	<b>Minnesota Landscape Arboretum Foundation</b>			<b>Total</b>	
	Unrestricted	Temporarily restricted	Permanently restricted	2012	2011
<b>Revenues</b>					
Contributions	\$1,862	\$1,458	\$380	\$3,700	\$4,308
Membership dues and fees	1,140			1,140	1,125
Investment income (loss), net	2	15		17	(84)
Net realized and unrealized gains on investments	43	189		232	4,236
Change in value of annuity trust			10	10	13
Other revenue	211			211	189
Net assets released from restriction	2,381	(2,381)		-	-
Total revenues	5,639	(719)	390	5,310	9,787
<b>Expenses</b>					
Program services	5,043			5,043	5,146
Support services					
Management and general	507			507	348
Fund-raising	907			907	944
Total expenses	6,457	-	-	6,457	6,438
Increase (decrease) in net assets	(818)	(719)	390	(1,147)	3,349
Net assets at beginning of year	980	6,923	16,034	23,937	20,588
Net assets at end of year	\$162	\$6,204	\$16,424	\$22,790	\$23,937

See notes to consolidated financial statements.

**University of Minnesota**
**Component Units - Statement of Activities**

Year ended June 30, 2012

(with summarized information for the year ended June 30, 2011) (in thousands)

	<b>Minnesota 4-H Foundation</b>			<b>Total</b>	
	<b>Unrestricted</b>	<b>Temporarily restricted</b>	<b>Permanently restricted</b>	<b>2012</b>	<b>2011</b>
<b>Revenues</b>					
Contributions	\$105	\$173	\$74	\$352	\$401
Investment income (loss), net	(1)	29		28	863
Change in value of annuity trust		1	(1)	-	4
Other revenue	169	336	14	519	1,462
Net assets released from restriction	987	(987)		-	-
Total revenues	1,260	(448)	87	899	2,730
<b>Expenses</b>					
Program services	922			922	1,361
Support services					
Management and general	85			85	86
Fund-raising	270			270	198
Total expenses	1,277	-	-	1,277	1,645
Increase (decrease) in net assets	(17)	(448)	87	(378)	1,085
Net assets at beginning of year	296	5,036	1,829	7,161	6,076
Reclassification of net assets	(4)	(6)	10	-	-
Net assets at end of year	\$275	\$4,582	\$1,926	\$6,783	\$7,161

*See notes to consolidated financial statements.*

**University of Minnesota****Component Units - Statement of Activities**

Year ended June 30, 2012

(with summarized information for the year ended June 30, 2011) (in thousands)

	<b>University of Minnesota Physicians</b>	
	Total (unrestricted)	
	2012	2011
<b>Revenues</b>		
Net patient service revenue	\$182,294	\$176,472
Investment income, net	1,371	1,225
Net realized and unrealized gains (losses) on investments	(300)	316
Other revenue	231,396	194,752
Total revenues	414,761	372,765
<b>Expenses</b>		
Program services		
Health care services	369,488	329,208
Support services		
Management and general	39,996	39,729
Total expenses	409,484	368,937
Increase in net assets	5,277	3,828
Net assets at beginning of year	65,543	61,715
Net assets at end of year	\$70,820	\$65,543

*See notes to consolidated financial statements.*

# University of Minnesota

## Component Units - Statement of Activities

Year ended June 30, 2012

(with summarized information for the year ended June 30, 2011) (in thousands)

	University of Minnesota Alumni Association			Total	
	Unrestricted	Temporarily restricted	Permanently restricted	2012	2011
<b>Revenues</b>					
Contributions	\$98			\$98	\$83
Membership dues and fees	754			754	771
Investment income (loss), net	15			15	(81)
Change in value of investments	457	\$16		473	3,739
Other revenue	2,200			2,200	1,964
Net assets released from restriction	29	(29)		-	-
Total revenues	3,553	(13)	-	3,540	6,476
<b>Expenses</b>					
Program services	3,860			3,860	3,492
Support services					
Management and general	437			437	562
Fund-raising	68			68	62
Total expenses	4,365	-	-	4,365	4,116
Increase (decrease) in net assets	(812)	(13)	-	(825)	2,360
Net assets at beginning of year	19,434	552	181	20,167	17,807
Net assets at end of year	\$18,622	\$539	\$181	\$19,342	\$20,167

See notes to consolidated financial statements.

# University of Minnesota

## Component Units - Statement of Activities

Year ended June 30, 2012

(with summarized information for the year ended June 30, 2011) (in thousands)

	University Gateway Corporation			
	Unrestricted	Temporarily restricted	Total 2012	Total 2011
<b>Revenues</b>				
Investment income, net				\$1
Direct financing lease revenue	\$2,841		2,841	2,905
Change in derivative financial instruments	(1,643)		(1,643)	123
Change in the interest in net assets of related parties	177		177	3,956
Other revenue	3,167		3,167	2,925
Total revenues	4,542	-	4,542	9,910
<b>Expenses</b>				
Program services	5,666		5,666	5,760
Support services				
Management and general	56		56	40
Payment to affiliated parties	441		441	421
Total expenses	6,163	-	6,163	6,221
Increase (decrease) in net assets	(1,621)		(1,621)	3,689
Net assets at beginning of year	18,975	1	18,976	15,287
Net assets at end of year	\$17,354	\$1	\$17,355	\$18,976

See notes to consolidated financial statements.



**University of Minnesota**  
**Consolidated Statements of Cash Flows (Excluding Component Units)**

Years Ended June 30, 2012 and 2011 (in thousands)

	2012	2011
<b>Cash Flows From Operating Activities</b>		
Student tuition and fees	\$ 698,277	\$ 636,915
Grants and contracts (federal, state, nongovernmental, other)	881,898	816,156
Auxiliary enterprises	354,762	341,898
Sales and services of educational activities	161,017	117,970
Other operating revenues	896	2,594
Payments to employees for services	(1,414,961)	(1,445,934)
Payments for fringe benefits	(469,537)	(467,890)
Payments to suppliers for goods and services	(831,138)	(809,634)
Payments for scholarships and fellowships	(42,545)	(44,064)
Loans issued to students	(9,970)	(7,518)
Collection of loans to students	11,513	11,558
Net cash used by operating activities	(659,788)	(847,949)
<b>Cash Flows From Noncapital Financing Activities</b>		
Federal appropriations	31,356	69,134
State appropriations	546,119	615,129
Grants for other than capital purposes	174,669	192,278
Gifts for other than capital purposes	142,176	147,108
Private gifts for endowment purposes	11,429	2,132
Other nonoperating revenues, net	5,849	5,921
Direct lending receipts	336,400	343,854
Direct lending disbursements	(337,250)	(342,750)
Agency transactions	2,810	(5,322)
Net cash provided by noncapital financing activities	913,558	1,027,484
<b>Cash Flows From Capital and Related Financing Activities</b>		
Capital appropriations	58,606	81,368
Capital grants and gifts	31,348	40,405
Proceeds from capital debt	138,178	534,622
Proceeds from sale of capital assets	(814)	(2,973)
Purchases of capital assets	(261,552)	(228,270)
Principal paid on capital debt	(55,715)	(344,598)
Interest paid on capital debt	(50,081)	(34,582)
Net cash provided (used) by capital and related financing activities	(140,030)	45,972
<b>Cash Flows From Investing Activities</b>		
Investment income, net	84,158	66,695
Proceeds from sales and maturities of investments	612,947	667,448
Purchase of investments	(874,357)	(831,198)
Net cash used by investing activities	(177,252)	(97,055)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(63,512)	128,452
<b>Cash and Cash Equivalents at Beginning of Year</b>	419,032	290,580
<b>Cash and Cash Equivalents at End of Year</b>	\$ 355,520	\$ 419,032

See notes to consolidated financial statements.

# University of Minnesota

## Consolidated Statements of Cash Flows (Excluding Component Units)

Years Ended June 30, 2012 and 2011 (in thousands)

<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities</b>	<b>2012</b>	<b>2011</b>
Operating loss	\$ (879,449)	\$ (966,964)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	183,875	163,689
Changes in assets and liabilities		
Receivables, net	25,053	(3,005)
Inventories	547	(1,029)
Prepaid and other items	(5,848)	(3,210)
Accounts payable	(13,064)	10,849
Accrued liabilities	31,076	(52,616)
Unearned income	(1,978)	4,337
Net cash used by operating activities	\$ (659,788)	\$ (847,949)
<b>Noncash Investing, Capital, and Financing Activities</b>		
Unrealized gains (losses) on investments	\$ (40,153)	\$ 116,646
Capital assets on account	43,323	34,491
Contribution of capital assets	3,344	4,388
Amortization of bond discount/premium	3,390	1,945
Capital assets acquired with capital lease	1,896	1,769
Gain on retirement of debt	-	792
<b>Cash and Cash Equivalents at End of Year</b>		
Cash and cash equivalents	\$ 167,751	\$ 243,093
Restricted cash and cash equivalents	187,769	175,939
Total cash and cash equivalents at end of year	\$ 355,520	\$ 419,032

See notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Years ended June 30, 2012 and 2011 (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 GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—An Amendment of GASB Statement No. 14* (GASB 39), 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 39 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 several tax-exempt component units. They are reported in separate columns on separate pages. GASB 39 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.

During fiscal years 2012 and 2011, the UMF distributed \$130,558 and \$121,930, 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.

## **Minnesota Medical Foundation**

The Minnesota Medical Foundation (MMF) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts in support of the advancement of health-related education, research, and service at the University of Minnesota. The Board of Trustees of the MMF consists of not fewer than 24 elected members, one third of whom must be physicians. Although the MMF is an independent organization, the majority of resources that the MMF holds and invests, including income from its investments, is restricted by donors to the activities of the University.

During fiscal years 2012 and 2011, the MMF distributed \$51,489 and \$44,832, respectively, to the University. Complete financial statements for the Minnesota Medical Foundation can be obtained from the MMF office, McNamara Alumni Center, 200 Oak St S.E., Suite 300, Minneapolis, MN 55455.

## **Minnesota Landscape Arboretum Foundation**

The Minnesota Landscape Arboretum Foundation (Foundation) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts for the benefit of the Minnesota Landscape Arboretum of the University of Minnesota. The Board of Trustees of the Foundation consists of between 8 and 36 trustees, and the number of trustees must be divisible by four. One fourth of the trustees are appointed by the University of Minnesota. Although the Foundation is an independent organization, the majority of resources that the Foundation holds and invests, including income from its investments, is restricted by donors to the activities of the University.

During fiscal years 2012 and 2011, the Minnesota Landscape Arboretum Foundation distributed \$5,180 and \$6,438, respectively, to the University. Complete financial statements for the Minnesota Landscape Arboretum Foundation can be obtained from the Foundation office, 3675 Arboretum Drive, Chaska, MN 55318.

## **Minnesota 4-H Foundation**

The Minnesota 4-H Foundation is a legally separate, tax-exempt organization, organized to receive, hold, invest, and administer assets and to make expenditures to or for the benefit of the programs of the Center for 4-H Youth Development, including support of the University of Minnesota Extension Service. The Board of Trustees consists of not fewer than 18 and not more than 21 persons elected from a slate of candidates prepared by the Board of Trustees.

During fiscal years 2012 and 2011, the Minnesota 4-H Foundation distributed \$1,013 and \$1,354, respectively, to the University. Complete financial statements for the Minnesota 4-H Foundation can be

obtained from the Minnesota 4-H Foundation office, McNamara Alumni Center, 200 Oak Street S.E., Suite 270B, Minneapolis, MN 55455.

### **University of Minnesota Alumni Association**

The University of Minnesota Alumni Association (Association) is a legally separate, tax-exempt organization that serves alumni and the University of Minnesota with a mission to connect alumni to the University, advocate and support excellence in education, and build pride, spirit, and community. A volunteer board of 46 directors governs the Association. Members of the board are elected as follows: officers (9) and an honorary director (1) by the Board of Directors; at-large and geographic representatives (18) by the Association's general membership; and collegiate/professional representatives (18) by their respective societies.

During fiscal years 2012 and 2011, the Association distributed \$1,205 and \$1,234, respectively, to the University. Complete financial statements for the Association can be obtained from the University of Minnesota Alumni Association, McNamara Alumni Center, 200 Oak Street S.E., Suite 200, Minneapolis, MN 55455.

### **University Gateway Corporation**

The University Gateway Corporation (Gateway) is a legally separate, tax-exempt entity that owns and operates a facility used to support three beneficiary organizations and the University of Minnesota in student recruiting, alumni relations, fund-raising activities, and general operations. The beneficiary organizations include the University of Minnesota Foundation, the University of Minnesota Alumni Association, and the Minnesota Medical Foundation. Gateway's six-member Board of Directors consists of three members from the University of Minnesota Foundation, two members from the University of Minnesota Alumni Association, and one member from the Minnesota Medical Foundation.

During fiscal year 2012 and 2011, Gateway distributed \$689 and \$987, respectively, to the University. Complete financial statements for the University Gateway Corporation can be obtained from the McNamara Alumni Center Management Office, 200 Oak Street S.E., Suite 35, Minneapolis, MN 55455.

### **University of Minnesota Physicians**

University of Minnesota Physicians (UMPhysicians) is a legally separate, tax-exempt clinical practice organization for the faculty of the University of Minnesota School of Medicine. The Board of UMPhysicians consists of 24 voting directors, including the UMPhysicians chief executive officer, the dean of the University of Minnesota Medical School, faculty and department heads of the University Medical School (18 members), individuals from the community at-large (4 members), and 2 nonvoting directors.

During fiscal years 2012 and 2011, UMPhysicians distributed \$79,061 and \$67,294, 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**

With the exception of UMore Development Limited Liability Company (LLC), the University's component units are nonprofit organizations, organized under IRS Code Section 501(c)(3). These units report under Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's

financial report for these differences. The component units' financial data has, however, been aggregated into like categories for presentation purposes and is shown in these statements in thousands, although in all cases except the University of Minnesota Physicians, the separately issued component units' financial statements are not rounded.

### **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.

As a GASB institution, the University has the option of applying pronouncements issued by the FASB after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to adopt FASB pronouncements issued after the applicable date.

### **Significant Accounting Policies**

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

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

The University uses derivative instruments for a variety of purposes. Financial futures are used to maintain investment portfolio asset allocations in accordance with institutional policy and to enhance the investment returns of certain asset classes. Forward foreign exchange contracts are used to protect against foreign currency exposure; gas commodity forward contracts are used to synthetically fix the price of other physical gas purchases used for University consumption; and interest rate swaps are used to manage the cost of debt. Financial futures and forward foreign exchange contracts are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The University is required to post collateral, typically U.S. Treasury bills, for derivative contracts held. Collateral required by these



contracts is monitored daily and required deposits or withdrawals are made as necessary. In general, the University follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Minnesota, for donor-restricted endowments. Under UPMIFA, the Board of Regents determines the prudent amount of realized and unrealized endowment appreciation to be allocated to fund current operations. Investment of the realized or unrealized appreciation in excess of the annual spending limits is discussed in Note 2.

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

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

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

**Capital Assets**—Land, buildings, and other property are recorded at cost, if purchased or constructed, or at market value on the date of gift, if received by gift or bequest. Depreciation is determined using the straight-line method, based on the estimated useful lives of the assets. Interest that qualified for interest capitalization is \$1,506 and \$1,636 for fiscal years 2012 and 2011, respectively.

The following schedule summarizes the useful lives and capitalization thresholds:

<b>Asset category</b>	<b>Useful life (in years)</b>	<b>Capitalization threshold</b>
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	2,500
Land	Indefinite	-
Library and reference books	10	-
Permanent right-of-way easements (intangible asset)	Indefinite	-

The University maintains certain collections (works of art or historical treasures) for public exhibition, education, or research in furtherance of public service. These collections are preserved, unencumbered, and cannot be disposed of for financial gain (proceeds from sales of collection items must be used to acquire other items for the collections). As such, these collections are not capitalized for financial statement reporting purposes.

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

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

**Net Assets**—Net assets are reported in three components based upon the type of external restriction imposed.

- **Unrestricted:** Net assets that have no external restriction imposed. Unrestricted net assets 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 assets that are 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 assets that are 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.

- **Invested in capital assets, net of related debt:** 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 assets.

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.

**Restatement of Prior Period Amounts**—Subsequent to the issuance of the consolidated financial statements as of and for the year ended June 30, 2011, the University identified adjustments, which resulted in a net overstatement of beginning Unrestricted Net Assets and an overstatement of Investments. The University determined that at the time of the adoption of GASB 51, *Accounting and Financial Reporting for Intangible Assets (GASB 51)*, the amounts recorded for income producing intangible assets should have reduced to reflect accumulated amortization through the effective date of adoption. As a result of improved data available from the InfoEd software system related to patents, the University has corrected the accompanying financial statements, retroactive to July 1, 2010, to improve consistency of the 2012 and 2011 financial statements. The net effect of these corrections for fiscal year 2011 is a decrease in beginning Net Assets of \$12.6 million, a decrease in ending Unrestricted Net Assets of \$12.6 million and a decrease in Investments of \$12.6 million. The University believes that the effect of these adjustments is not material to the accompanying financial statements.

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

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

- **Operating revenues:** Revenues that result from exchange activities that contribute to the University's mission of Research and Discovery; Teaching and Learning; and Outreach and Public Service. Exchange activities are transactions where the amount received approximates the fair market value of the goods or services given up. The University considers student tuition and fees (net of scholarship allowances), most grants and contracts, interest on student loans, and sales and services of auxiliary and educational activities (net of scholarship allowances) to be exchange transactions.
- **Nonoperating revenues:** Revenues that represent nonexchange activities. The primary sources of these revenues are federal and state appropriations, gifts, capital grants, federal and state financial aid grants (such as Pell and Supplemental Educational Opportunity Grants), and other nonexchange grants and contracts. Although the University relies upon these revenue sources to fund the cost of operations, the grantor or donor is not the direct recipient of the goods or services delivered under the



grant or gift terms. Insurance recovery proceeds are also classified as nonoperating revenues as part of other nonoperating revenues, net, which total \$740 and \$1,642 for fiscal years 2012 and 2011, respectively.

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

During fiscal years 2012 and 2011, departmental research in nonsponsored accounts of \$160,535 and \$161,492, respectively, was recorded as research expense.

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

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

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

## **New Accounting Pronouncements**

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

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, addresses the recognition, measurement, and disclosure requirements for services concession arrangements (SCA), which are a type of public-private or public-public partnership.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and 34*, which modifies and improves existing guidance regarding the inclusion, presentation, and disclosure requirements for component unit and equity interest transactions of a financial reporting entity.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, brings authoritative accounting and financial reporting literature of the Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) issued on or before November 30, 1989, and which does not conflict or contradict GASB pronouncements, together in one standard.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the University's net position.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, reclassifies certain items that were previously reported as assets and liabilities as deferred inflows or outflows of resources or recognizes them as inflows or outflows of resources.

GASB Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*, resolves conflicting guidance that resulted from the issuance of two pronouncements.

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

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, 2012 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, 2012:

	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	\$ 165,013	\$ 136	\$ 109		\$ 2,176	\$ 317	\$ 167,751
Short-term investments	133,586						133,586
Total current assets	298,599	136	109		2,176	317	301,337
Restricted cash and cash equivalents					187,769		187,769
Investments—Securities	652,496	251,963		\$ 40			904,499
Investments—Other		718,494	44,284	26,019		32,374	821,171
Total noncurrent investments	652,496	970,457	44,284	26,059		32,374	1,725,670
Total cash and investments	\$ 951,095	\$ 970,593	\$ 44,393	\$ 26,059	\$ 189,945	\$ 32,691	\$ 2,214,776

The following table summarizes cash and investments, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2011:

	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	\$ 235,631	\$ 3,888	\$ (341)		\$ 3,634	\$ 281	\$ 243,093
Short-term investments	49,993				2,272		52,265
Total current assets	285,624	3,888	(341)		5,906	281	295,358
Restricted cash and cash equivalents					175,939		175,939
Investments—Securities	526,895	228,162	7,570	\$ 40			762,667
Investments—Other		736,250	36,725	28,049		32,164	833,188
Total noncurrent investments	526,895	964,412	44,295	28,089		32,164	1,595,855
Total cash and investments	\$ 812,519	\$ 968,300	\$ 43,954	\$ 28,089	\$ 181,845	\$ 32,445	\$ 2,067,152

## 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, 2012 and 2011, the market value of the TIP assets invested in the CEF was \$112,611 and \$108,661, 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.

For both June 30, 2012 and 2011 the TIP's average Standard & Poor's credit rating was AAA.

**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.

Minnesota State Chapter 309, Section 745, governs the expenditure or accumulation of endowment funds, where the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposed, and duration for which the endowment fund is established. For fiscal years ended June 30, 2012

and 2011, \$10,179 and \$34,570, respectively, in net appreciation over the prior fiscal year was made available for departmental spending in unrestricted net assets.

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 have 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, 2012 and 2011, the University had unfunded commitments to LPs of \$166,641 and \$228,667, 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, 2012 and 2011, the market value of the GIP assets invested in the CEF was \$10,622 and \$10,249, 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 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.

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	\$ 9,671	\$ 2,268	\$ 11,939
Consolidated Endowment Fund	49,787	(22,444)	27,343
Group Investment Pool	4,061	(2,576)	1,485
Separately Invested Funds and Other	11	(5,205)	(5,194)
Invested Assets Related to Indebtedness	48	1,334	1,382
RUMINCO, Ltd. Insurance Subsidiary	978	(1,038)	(60)
Total 2012	\$ 64,556	\$ (27,661)	\$ 36,895
Total 2011	\$ 58,303	\$ 122,562	\$ 180,865

## 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, 2012:

Fixed-income securities:	Market Value	Weighted Average Maturity (years)	AA or Better	BBB to A	BB or Lower	Not Rated
Cash & equivalents	\$ 183,330	0.00	100			
Mortgage-backed securities	40,000	22.40	100			
US Agency	695,097	2.50	100			
US Treasury	45,000	1.90	100			
Mutual Funds	166,847	7.10				100
Total marketable fixed-income securities	1,130,274	3.45				
Private fixed-income securities	38,885					
Total fixed-income securities	\$ 1,169,159					

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2011:

<b>Fixed-income securities:</b>	<b>Market Value</b>	<b>Weighted Average Maturity (years)</b>	<b>AA or Better</b>	<b>BBB to A</b>	<b>BB or Lower</b>	<b>Not Rated</b>
Cash & equivalents	\$ 281,020	0.04	100			
Mortgage-backed securities	15,005	6.70	100			
US agency	476,775	2.30	100			
US treasury	30,000	2.80	100			
Mutual Funds	154,998	6.49				100
Total marketable fixed-income securities	957,798	2.40				
Private fixed-income securities	45,791					
Total fixed-income securities	\$ 1,003,589					

**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, 2012, and 2011, 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, 2012 and 2011:

<b>Investment type</b>	<b>Foreign currency</b>	<b>Market value 2012</b>	<b>Market value 2011</b>
Equity/Debt/RE	Euro	\$ 45,113	\$ 28,457
Equity	Japanese Yen	16,346	8,489
Equity/Debt	Other Currency	274	5,420
Equity	British Pound Sterling	12,355	5,081
Equity/Debt	Brazilian Real	4,936	3,826
Equity	Hong Kong Dollar	7,868	2,984
Equity/Debt	South Korean Won	5,500	2,616
Equity/Debt	Mexican Peso	2,793	1,913
Equity	Australian Dollar	4,285	1,833
Equity	Singapore Dollar	2,191	1,719
Equity/Debt	Chinese Renminbi	2,245	1,374
Debt	Russian Ruble	566	1,314
Equity	Swedish Krona	1,536	1,227
Equity	Canadian Dollar	4,692	1,165
Equity	Indian Rupee	2,143	1,016
Equity	South African Rand	2,738	962
Debt	Argentine Peso	-	940
Equity	Thailand Baht	860	825
Equity	New Taiwan Dollar	3,629	746
Equity/Debt	Swiss Franc	3,072	694
Equity	Turkish Lira	604	651
Debt	Indonesian Rupiah	918	598
Equity	Malaysian Ringgit	1,501	450
Equity	Kazakhstan Tenge	-	285
Equity	Norwegian Krone	414	242
Equity	Polish Zloty	449	171
Equity	Danish Krone	406	51
Equity	New Zealand Dollar	40	10
Equity	Israeli Shekel	193	
Equity	Philippine Peso	10	
<b>Total</b>		<b>\$127,677</b>	<b>\$ 75,059</b>

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

### **Financial Institution Credit Risk**

**Deposits**—Depository credit risk is the risk that in the event of a bank failure, the University's deposits may not be recovered. Beginning December 31, 2010, and ending December 31, 2012, all non-interest-bearing accounts are fully insured, regardless of balance, at qualified FDIC-insured institutions. This change was due to the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage for such non-interest-bearing accounts. As of June 30, 2012 and 2011, the University's bank balances of \$182,138 and \$76,766, respectively, were insured, but 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, 2012 and 2011, the market value of investments held in the custodial accounts was \$785,352 and \$565,421 in TIP and \$28,770 and \$40,612 in CEF, respectively.



### 3. Other Asset and Liability Information

Receivables, net, and student loans receivable as of June 30, 2012, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	\$ 792		\$ 792
Sponsored grants and contracts	105,481		105,481
Notes receivable	34	\$ 529	563
Student receivables	35,767		35,767
Trade receivables	98,208		98,208
Accrued interest	5,212		5,212
Other	9,916	19	9,935
Allowance for uncollectible accounts	(12,461)		(12,461)
Total receivables, net	\$ 242,949	\$ 548	\$ 243,497
Student loans receivable	11,740	53,474	\$ 65,214
Allowance for uncollectible accounts	(2,875)	(535)	(3,410)
Student loans receivable, net	\$ 8,865	\$ 52,939	\$ 61,804

Accrued liabilities as of June 30, 2012, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	\$ 6,572	\$ 7,416	\$ 13,988
Compensation and benefits	132,026	93,334	225,360
Self-insurance reserves	36,637	11,472	48,109
Accrued interest	12,002		12,002
Refundable advances		55,037	55,037
Other	41,123		41,123
Total accrued liabilities	\$ 228,360	\$ 167,259	\$ 395,619

Activity for certain liabilities consisted of the following as of June 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances (excluding pensions, see Note 6)	\$205,556	\$ 126,291	\$(111,750)	\$ 220,097	\$ 132,026
Self-insurance reserves (see Note 9)	43,989	251,902	(247,782)	48,109	36,637
Refundable advances	55,659		(622)	55,037	
Other	42,384	41,123	(42,384)	41,123	41,123



Receivables, net, and student loans receivable as of June 30, 2011, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	\$ 19,352		\$ 19,352
Sponsored grants and contracts	105,373		105,373
Notes receivable	32	\$ 518	550
Student receivables	38,816		38,816
Trade receivables	86,951		86,951
Accrued interest	3,088		3,088
Other	17,113	44	17,157
Allowance for uncollectible accounts	(11,934)		(11,934)
Total receivables, net	\$ 258,791	\$ 562	\$ 259,353
Student loans receivable	\$ 11,404	\$ 54,354	\$ 65,758
Allowance for uncollectible accounts	(2,681)	(543)	(3,224)
Student loans receivable, net	\$ 8,723	\$ 53,811	\$ 62,534

Accrued liabilities as of June 30, 2011, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	\$ 10,154	\$ 526	\$ 10,680
Compensation and benefits	131,383	79,751	211,134
Self-insurance reserves	33,244	10,745	43,989
Accrued interest	11,866		11,866
Refundable advances		55,658	55,658
Other	40,851	1,533	42,384
Total accrued liabilities	\$ 227,498	\$ 148,213	\$ 375,711

Activity for certain liabilities consisted of the following as of June 30, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances (excluding pensions, see Note 6)	\$237,978	\$ 135,926	\$(168,348)	\$ 205,556	\$ 131,383
Self-insurance reserves (see Note 9)	39,145	257,672	(252,828)	43,989	33,244
Refundable advances	56,056	(397)		55,659	
Other	72,976	42,384	(72,976)	42,384	40,851

## 4. Capital Assets

Capital assets, net as of June 30, 2012, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
<b>Depreciable / amortizable capital assets</b>					
Buildings and improvements	\$ 3,235,133	\$ 4,756	\$ 73,366		\$ 3,313,255
Leasehold improvements	9,239	3			9,242
Equipment	718,422	56,976		\$ (53,723)	721,675
Infrastructure	411,194	(140)	27,001		438,055
Library and reference books	125,119	14,270			139,389
Capitalized software (intangible asset)	97,940	8,897	5,112		111,949
All other intangible assets	8,937	648	(5,112)		4,473
Total depreciable / amortizable capital assets	4,605,984	85,410	100,367	(53,723)	4,738,038
<b>Non-depreciable / amortizable capital assets</b>					
Land	87,416	2,776		(3)	90,189
Museums and collections	49,846	1,882			51,728
Construction in progress	100,413	186,926	(100,367)	1	186,973
Permanent right-of-way easements (intangible asset)	2				2
Total non-depreciable / amortizable capital assets	237,677	191,584	(100,367)	(2)	328,892
<b>Accumulated depreciation / amortization</b>					
Buildings and improvements	(1,404,163)	(85,811)			(1,489,974)
Leasehold improvements	(3,519)	(808)			(4,327)
Equipment	(492,038)	(56,638)		52,345	(496,331)
Infrastructure	(203,010)	(14,342)			(217,352)
Library and reference books	(59,518)	(12,757)			(72,275)
Capitalized software (intangible asset)	(71,376)	(12,795)	(2,731)	140	(86,762)
All other intangible assets	(4,965)	(724)	2,731		(2,958)
Total accumulated depreciation / amortizable	(2,238,589)	(183,875)	-	52,485	(2,369,979)
Capital assets, net	\$ 2,605,072	\$ 93,119	\$ -	\$ (1,240)	\$ 2,696,951
<b>Summary</b>					
Depreciable / amortizable capital assets	\$ 4,605,984	\$ 85,410	\$ 100,367	\$ (53,723)	\$ 4,738,038
Non-depreciable / amortizable capital assets	237,677	191,584	(100,367)	(2)	328,892
Total capital assets	4,843,661	276,994		(53,725)	5,066,930
Less accumulated depreciation / amortization	(2,238,589)	(183,875)		52,485	(2,369,979)
Capital assets, net	\$ 2,605,072	\$ 93,119	\$ -	\$ (1,240)	\$ 2,696,951

Capital assets, net as of June 30, 2011, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
<b>Depreciable / amortizable capital assets</b>					
Buildings and improvements	\$ 3,055,478	\$ 144	\$ 180,497	\$ (986)	\$ 3,235,133
Leasehold improvements	8,740	501		(2)	9,239
Equipment	663,475	68,268		(13,321)	718,422
Infrastructure	407,299		3,905	(10)	411,194
Library and reference books	121,762	13,947		(10,590)	125,119
Capitalized software (intangible asset)	93,029	4,927		(16)	97,940
All other intangible assets	7,586	1,351			8,937
Total depreciable / amortizable capital assets	4,357,369	89,138	184,402	(24,925)	4,605,984
<b>Non-depreciable / amortizable capital assets</b>					
Land	85,218	2,198			87,416
Museums and collections	47,572	2,072	202		49,846
Construction in progress	140,347	148,844	(184,604)	(4,174)	100,413
Permanent right-of-way easements (intangible asset)	2				2
Total non-depreciable / amortizable capital assets	273,139	153,114	(184,402)	(4,174)	237,677
<b>Accumulated depreciation / amortization</b>					
Buildings and improvements	(1,329,579)	(75,108)		524	(1,404,163)
Leasehold improvements	(2,686)	(833)			(3,519)
Equipment	(453,432)	(51,235)		12,629	(492,038)
Infrastructure	(189,736)	(13,274)			(203,010)
Library and reference books	(57,400)	(12,708)		10,590	(59,518)
Capitalized software (intangible asset)	(62,730)	(8,646)			(71,376)
All other intangible assets	(3,081)	(1,884)			(4,965)
Total accumulated depreciation / amortizable	(2,098,644)	(163,688)	-	23,743	(2,238,589)
Capital assets, net	\$ 2,531,864	\$ 78,564	\$ -	\$ (5,356)	\$ 2,605,072
<b>Summary</b>					
Depreciable / amortizable capital assets	\$ 4,357,369	\$ 89,138	\$ 184,402	\$ (24,925)	\$ 4,605,984
Non-depreciable / amortizable capital assets	273,139	153,114	(184,402)	(4,174)	237,677
Total capital assets	4,630,508	242,252		(29,099)	4,843,661
Less accumulated depreciation / amortization	(2,098,644)	(163,688)		23,743	(2,238,589)
Capital assets, net	\$ 2,531,864	\$ 78,564	\$ -	\$ (5,356)	\$ 2,605,072

## 5. Long-Term Debt

Long-term debt on June 30, 2012, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Interest rate	Due at various dates through fiscal year	FY 2012 beginning balance	Additions	Reductions	FY 2012 ending balance	Current portion
General obligation bonds									
*Series 2011D	\$ 53,610	2012	2.00%-5.00%	2037		\$ 60,964	\$ 156	\$ 60,808	\$ 1,455
*Series 2011C	19,335	2012	0.90%-4.56%	2037		19,322		19,322	299
*Series 2011A	335,270	2011	2.00%-5.50%	2037	\$ 368,073		19,297	348,776	22,182
Series 2010B	41,720	2011	.74%-5.02%	2036	41,720		920	40,800	1,295
Series 2010D	27,200	2010	3.86%-5.77%	2030	27,200			27,200	
*Series 2010C	8,480	2010	2.00%-4.00%	2016	7,570		1,440	6,130	1,470
*Series 2009D	37,330	2009	6.30%	2029	37,032		(17)	37,049	(17)
*Series 2009C	44,625	2009	1.50%-5.00%	2022	43,171		3,187	39,984	3,317
Series 2009B	17,035	2009	2.50%-6.00%	2029	16,005		600	15,405	620
*Series 2009A	41,000	2009	3.00%-5.25%	2034	40,672		1,104	39,568	1,136
Series 2001B	3,500	2002	4.33%	2012	435		435		
Commercial paper notes, Series A	159,100	2006	.10%- .31%	2013	131,100		7,000	124,100	124,100
Commercial paper notes, Series B	61,000	2007	.14%- .31%	2013	49,000		3,000	46,000	46,000
Commercial paper notes, Series C	70,000	2008	.13%- .32%	2013	59,500		5,500	54,000	54,000
Commercial paper notes, Series D	25,000	2010	.13%- .29%	2013	25,000		2,750	22,250	22,250
Obligations to the State of Minnesota pursuant to									
Infrastructure development bonds	109,234	1991	3.55%-6.90%	2025	35,511		4,872	30,639	4,822
Auxiliary revenue bonds	13,180	1971-1977	3.00%	2014	2,215		795	1,420	800
*Special purpose revenue bonds, Series 2011B	52,485	2012	3.00%-5.00%	2037		57,893	157	57,736	593
*Special purpose revenue bonds, Series 2010A	111,400	2011	3.00%-5.00%	2036	123,840		1,211	122,629	3,056
*Special purpose revenue bonds, Series 2006	137,250	2007	4.00%-5.00%	2030	131,353		4,769	126,584	4,969
Capital leases and other		1995-2010	1.72%-8.00%	2018	6,022	1,895	1,929	5,988	6,085
Total	\$ 1,367,754				\$ 1,145,419	\$ 140,074	\$ 59,105	\$ 1,226,388	\$ 298,432

\*Net unamortized premium/discount is included in beginning and ending balances.

Long-term debt on June 30, 2011, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Interest rate	Due at various dates through fiscal year	FY 2011 beginning balance	Additions	Reductions	FY 2011 ending balance	Current portion
General obligation bonds									
*Series 2011A	\$ 335,270	2011	2.00%-5.50%	2037		\$ 368,675	\$ 602	\$ 368,073	\$ 19,297
Series 2010B	41,720	2011	.74%-5.02%	2036		41,720		41,720	920
Series 2010D	27,200	2010	3.86%-5.77%	2030	\$ 27,200			27,200	
*Series 2010C	8,480	2010	2.00%-4.00%	2016	8,955		1,385	7,570	1,440
*Series 2009D	37,330	2009	6.30%	2029	37,015		(17)	37,032	(17)
*Series 2009C	44,625	2009	1.50%-5.00%	2022	46,249		3,078	43,171	3,187
Series 2009B	17,035	2009	2.50%-6.00%	2029	16,590		585	16,005	600
*Series 2009A	41,000	2009	3.00%-5.25%	2034	41,749		1,077	40,672	1,106
*Series 2004A	20,720	2005	4.00%-5.00%	2011	3,915		3,915		
Series 2003A	71,000	2003	4.39%	2011	62,700		62,700		
Series 2001C	159,950	2002	4.40%	2011	121,550		121,550		
Series 2001B	3,500	2002	4.33%	2012	850		415	435	435
Series 1999A	200,650	1999	4.16%	2011	116,900		116,900		
Commercial paper notes, Series A	159,100	2006	.10%- .31%	2012	137,100		6,000	131,100	131,100
Commercial paper notes, Series B	61,000	2007	.14%- .31%	2012	52,000		3,000	49,000	49,000
Commercial paper notes, Series C	70,000	2008	.13%- .32%	2012	59,750		250	59,500	59,500
Commercial paper notes, Series D	25,000	2010	.13%- .29%	2012	25,000			25,000	25,000
Obligations to the State of Minnesota pursuant to									
Infrastructure development bonds	109,234	1991	3.55%-6.90%	2025	40,466		4,955	35,511	4,872
Auxiliary revenue bonds	20,085	1971-1977	3.00%	2014	3,310		1,095	2,215	795
*Special purpose revenue bonds, Series 2010A	111,400	2011	3.00%-5.00%	2036		124,227	387	123,840	1,211
*Special purpose revenue bonds, Series 2006	137,250	2007	4.00%-5.00%	2030	135,927		4,574	131,353	4,769
Capital leases and other		1995-2010	1.72%-8.00%	2018	6,211	1,769	1,958	6,022	2,299
**Interest rate swaps borrowing			4.05%	2011	12,927		12,927		
Total	\$1,701,549				\$ 956,364	\$ 536,391	\$ 347,336	\$1,145,419	\$ 305,514

\*Net unamortized premium/discount is included in beginning and ending balances.

\*\*Interest rate swaps borrowing was reduced in its entirety due to termination of swaps in FY2011.

## **General Obligation Bonds**

On December 21, 2011, the University issued General Obligation Bonds, Series 2011D in the par amount of \$53,610. The proceeds will be used to fund projects that consist of the renovation of Northrop Memorial Auditorium, other construction and remodeling projects, purchases of land and buildings, and the acquisition and installation of equipment. The 2011D bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of \$7,354.

On October 13, 2011, the University issued General Obligation Taxable Bonds, Series 2011C in the par amount of \$19,335 as the second tranche of 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 of the biomedical science research facilities. The 2011C bonds were issued at coupon rates of 0.9 – 4.6 percent with a discount of \$13.

On February 15, 2011, the University issued General Obligation Bonds, Series 2011A in the par amount of \$335,270 to fund various capital projects, to refund the University's outstanding variable rate General Obligation Bonds, Series 1999A and Series 2001C, and variable rate General Obligation Refunding Bonds, Series 2003A, and to pay costs of issuance. The 2011A bonds were issued at coupon rates of 2.0 - 5.5 percent with a premium of \$33,405. On March 21, 2011, the University refunded all of the current outstanding balance of the Series 1999A, 2001C and 2003A bonds in the amount of \$282,900. In addition, the University terminated liquidity facilities and interest rate swap agreements associated with each refunded series.

On September 30, 2010, the University issued General Obligation Taxable Bonds, Series 2010B in the par amount of \$41,720. The Series 2010B bonds are Build America Bonds – Direct Payment to Issuer, whereby the University will receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. The 2010B bonds are the first tranche of the University Supported Biomedical Science Research Facilities Funding Program that will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The 2010B bonds were issued at coupon rates of 0.74 – 5.02 percent.

On February 10, 2010, the University issued General Obligation Taxable Bonds, Series 2010D and General Obligation Bonds, Series 2010C in the amount of \$27,200 and \$8,480, respectively. The Series 2010D bonds are Build America Bonds – Direct Payment to Issuer, whereby the University will receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. The 2010D bonds were issued at coupon rates of 3.86 – 5.77 percent. The 2010C bonds were issued at coupon rates of 2.0 – 4.0 percent with a premium of \$508.

On May 5, 2009, the University issued General Obligation Taxable Bonds, Series 2009D and General Obligation Bonds, Series 2009C in the par amount of \$37,330 and \$44,625, respectively. The Series 2009D bonds are Build America Bonds – Direct Payment to Issuer, whereby the University will receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. The 2009D bonds were issued at a coupon rate of 6.3 percent, with a discount of \$334. The 2009C bonds were issued at coupon rates of 1.5 – 5.0 percent with a premium of \$4,431.

On February 5, 2009, the University issued General Obligation Taxable Bonds, Series 2009B and General Obligation Bonds, Series 2009A in the par amount of \$17,035 and \$41,000, respectively. The 2009B bonds were issued at coupon rates of 2.5 – 6.0 percent. The 2009A bonds were issued at coupon rates of 3.0 – 5.25 percent with a net premium of \$1,528.

Under generally accepted accounting principles, the Series 2001B bonds were defined as demand bonds because bondholders had the option to put the bonds back to (demand repayment from) the University weekly. In the absence of Standby Purchase Agreements (SBPAs), the University classified the entire obligation of the Series 2001B bonds as current liabilities.

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. In addition, the bonds are tax-exempt with the exception of the Series 2010D, 2009D, 2009B, and 2001B bonds.

### **Special Purpose Revenue Bonds**

On October 13, 2011, the University issued Special Purpose Revenue Bonds, Series 2011B in the par amount of \$52,485 as the second tranche of 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 of the biomedical science research facilities. The 2011B bonds were issued at coupon rates of 3.0 – 5.0 percent with a premium of \$5,408. State of Minnesota legislation provides for an annual appropriation to reimburse the University for the annual debt service on these bonds.

On September 30, 2010, the University issued Special Purpose Revenue Bonds, Series 2010A in the par amount of \$111,400. The 2010A bonds are the first tranche of the State Supported Biomedical Science Research Facilities Funding Program that will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The 2010A bonds were issued at coupon rates of 3.0 to 5.0 percent with a premium of \$12,827. State of Minnesota legislation provides for an annual appropriation to reimburse the University for the annual debt service on these bonds.

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

### **Commercial Paper Notes**

The University issued tax-exempt Commercial Paper Notes, Series A, B, C, and D, to defease outstanding bond obligations, to finance purchases of land, buildings, construction, and remodeling projects to be undertaken by the University, to finance the acquisition and installation of equipment by the University, and to pay costs of issuance. The commercial paper is backed by the University's self-liquidity, which is supported by a line of credit with a major commercial bank. The credit agreement was amended effective October 1, 2012, reducing the maximum line from \$50,000 to \$40,000, and extending the term for another one-year period with a current expiration of September 30, 2013. No amounts have been drawn under the line of credit.

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

### **Auxiliary Bonds**

The University's auxiliary bonds are secured by the revenues, net of expenses, of the auxiliary activity to which they relate, debt-service subsidy grants provided by the U.S. Department of Housing and Urban Development, and the full faith and credit of the University. Student housing and food services net revenues of \$2,270 in fiscal year 2012, and \$2,909 in fiscal year 2011, were pledged as security to pay total debt

service payments of \$930 and \$1,286 for auxiliary revenue bonds in fiscal years 2012 and 2011, respectively. Revenues are pledged until fiscal year 2014, at which time the debt obligation on these auxiliary revenue bonds will be satisfied.

The auxiliary bond agreements require minimum mandatory reserves sufficient to cover the principal and interest due in any future fiscal year. To comply with this requirement, the University set aside \$1,201 on June 30, 2012 and \$1,382 on June 30, 2011, for future debt service. An additional \$975 and \$4,526 was set aside for building replacement reserves on June 30, 2012 and 2011, respectively. These mandatory reserves are included in restricted expendable net assets in the financial statements.

### **Infrastructure Development Bond Obligations**

Pursuant to Minnesota law, the University is obligated to pay the state one third of the debt service of infrastructure development bonds issued by the state for University capital projects. Debt was issued for this purpose between July 1990 and October 2005. The total amount of outstanding debt issued by the state on behalf of the University was \$91,915 as of June 30, 2012 and \$106,531 as of June 30, 2011 of which the University owes \$30,639 and \$35,511, respectively.

### **Capital Leases and Other Debt**

Capital lease and other commitments consist of capital leases and a note payable for fleet vehicles and a real estate contract for deed. Equipment acquired through capital leases and the note payable totals \$13,761 and related accumulated depreciation totals \$7,640. The capital leases bear interest rates between 1.5 percent and 4.1 percent, with none extending beyond fiscal year 2020. The note payable bears interest which is tied to the 30 Day LIBOR rate that cannot fall below a floor of 3.0 percent. The 3.0 percent floor for the note payable was maintained during the fiscal year ended June 30, 2012 and does not extend beyond fiscal year 2017.

### **Interest Rate Swaps**

The University had three pay-fixed, receive-variable interest rate swaps to convert all of a portion of the associated variable rate debt to synthetic fixed rates to protect against future interest rate fluctuations – essentially hedging against the variability of cash flows for budgeting purposes. On February 1, 2011, the University terminated the three interest rate swap agreements related to the Series 1999A, 2001C and 2003A bonds at a cost of \$17,195 which included a net realized loss of \$4,695.

At June 30, 2012 the University has three freestanding pay-fixed, receive-variable interest rate swaps that are considered ineffective hedges, where the changes in fair value are included in investment income reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets.



The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2012, 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	\$ (14,902)	8/27/2017
CP, Series 2005A	Freestanding	37,500	8/28/1997	4.88%	LIBOR Index**	Pay fixed and receive variable	(267)	8/28/2012
CP, Series 2005A	Freestanding	37,500	9/1/1997	4.90%	LIBOR Index**	Pay fixed and receive variable	(431)	7/1/2012
\$ 145,000							\$ (15,600)	

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

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

**Credit Risk**—The three existing swaps at the end of the fiscal year are with two separate counterparties. The percentage of the notional amount of swaps outstanding on June 30, 2012 for each counterparty is 74 and 26 percent, while these counterparties are rated A2 and A3, respectively, by Moody's Investors Service. The University faces maximum possible losses equivalent to the amount of the derivatives' fair value should the counterparty not perform under the terms of the swap agreements. Due to the fair value of all the swaps being negative as of June 30, 2012, the University was not exposed to credit risk.

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

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

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

**Termination Risk**—The University is exposed to termination risk on one of the freestanding swaps. The freestanding swap with a notional amount of \$70,000 allows the counterparty to terminate the swap agreement if the variable rate paid by the counterparty to the University averages above 7.0 percent for any rolling consecutive 90-day period.

Variable-rate bond interest payments and net swap payments will vary depending on current market conditions from week to week. Using rates as of June 30, 2012, 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							
2013	\$ 45,998	\$ 246,350	\$ 1,593	\$ 293,941	\$ 45,532	\$ 3,714	\$ 343,187
2014	47,786		1,407	49,193	41,956	3,423	94,572
2015	48,442		1,249	49,691	39,860	3,423	92,974
2016	49,970		1,013	50,983	37,747	3,423	92,153
2017	51,714		474	52,188	35,533	3,967	91,688
2018-2022	244,829		252	245,081	143,200		388,281
2023-2027	203,285			203,285	93,258		296,543
2028-2032	189,982			189,982	42,899		232,881
2033-2037	92,044			92,044	10,020		102,064
	\$ 974,050	\$ 246,350	\$ 5,988	\$ 1,226,388	\$ 490,005	\$ 17,950	\$ 1,734,343

The two swaps with the notional amounts of \$37,500 each matured subsequent to the fiscal year-end. The first swap matured on July 1, 2012 and the second swap matured on August 28, 2012. The remaining swap with the notional amount of \$70,000 is with the counterparty, rated A2 by Moody's Investors Service.

### 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, 2012	Bond call date
General obligation bonds					
1982 Series A	4/23/1985	\$ 112,635	\$ 65,000	\$ 29,600	12/1/2016
General obligation bonds					
1996 Series A	10/2/2005	159,000	159,000	124,000	7/1/2021

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

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

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

### Arbitrage

University general obligation and special purpose debt issuances issued after the Federal Tax Reform Act of 1986 are subject to federal arbitrage regulations. This results when earnings on the invested gross proceeds of a bond issue exceed the issuer's tax-exempt borrowing rates. The University continues to monitor and report any arbitrage in accordance with the Internal Revenue Code. The University had no arbitrage liability at June 30, 2012 or June 30, 2011.

## **6. Pension Plans**

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

### **Defined Benefit Plans**

#### **Cost-sharing plans, multiple-employer plans**

##### **United States Government (Federal) Retirement Plans**

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

##### **Civil Service Retirement System (CSRS)**

The Civil Service Retirement System (CSRS) is a federal program that provides retirement benefits for approximately 46 employees who work for the University. Participation is limited to those who initially entered federal service prior to January 1, 1984, and have been continuously employed since December 31, 1983, or before, or have had a break in federal service of one year or less since 1984. It is closed to new members. Retirement benefits are based on years and months of service. CSRS provides full retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with 5 years of service. Deferred benefits are payable at age 62 with 5 years of service. The annuity formula provides 1.5 percent of average salary for the first five years of service, 1.75 percent for the next five years, and 2.0 percent for any remaining service, up to a maximum of 80 percent of average salary (based on the highest three consecutive years of salary).

##### **Civil Service Retirement System Offset Retirement (CSRS Offset)**

The Civil Service Retirement System Offset Retirement (CSRS Offset) is administered in conjunction with the standard CSRS by the OPM. It provides retirement benefits for five employees who work for the University. Participation is limited to federal employees who had at least five years of creditable civilian federal service prior to January 1, 1987, and had rejoined federal service since January 1, 1984, after a break of CSRS coverage of more than one year; or was 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 114 employees who work for the University. In general, all civilian service employees newly hired on or after January 1, 1984, are mandatorily covered by FERS. In addition, employees rehired after January 1, 1984, who had less than five years of prior civilian service as of December 31, 1986, are mandatorily covered by FERS. Using Social Security as a base, FERS provides an additional defined benefit

and a voluntary thrift savings plan. An employee who receives a new appointment can often elect FERS coverage voluntarily during the first six months of the appointment. FERS provides full retirement benefits at the “Minimum Retirement Age” (MRA) with 30 years of service, at age 60 with 20 years of service, or at age 62 with 5 years of service. The MRA is 55 for those born before 1948, and incrementally increases to 57 for those born in or after 1970. Deferred retirement benefits are available at or after the MRA with 10 years of service at reduced benefit levels. The annuity formula generally provides 1.0 percent of the employee’s average salary (based on the highest three consecutive years of salary) multiplied by the number of years of creditable service. If retirement is at age 62 or later with at least 20 years of service, a factor of 1.1 percent is used rather than 1.0 percent.

## State of Minnesota Retirement Plans

### Public Employee Police and Fire Fund (PEPFF)

The Public Employee Police and Fire Fund (PEPFF) covers approximately 59 active law enforcement staff; participation is mandatory and begins from the first day of employment. PEPFF, in total, provides coverage to approximately 500 local governmental subdivisions within the state of Minnesota. Each participant earns service credit for each month retirement deductions are withheld from the employee’s salary. Retirement benefits are based on years and months of service. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. The fund covers all those hired since 1980. The University is liable for a portion of any unfunded accrued liability of this fund for its participants. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained from the Public Employees Retirement Association (PERA) Office, 60 Empire Drive, Suite 200, St. Paul, MN 55103.

### State Employees’ Retirement Fund (SERF)

The State Employees’ Retirement Fund (SERF) covers approximately 9,300 active Civil Service and non-faculty bargaining unit employees. SERF, in total, provides coverage to approximately 33 employers within the state of Minnesota. Participation is mandatory and begins from the first day of employment. Each participant earns service credit for each month retirement deductions are withheld from the employee’s salary. Retirement benefits are based on years and months of service. Normal retirement age is 65. The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. Applicable rates for each year of allowable service are 1.2 percent and 1.7 percent of a member’s average salary, which is defined as the highest salary paid in five successive years of service. The University is liable for a portion of any unfunded accrued liability of this fund for its participants. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained from the Minnesota State Retirement System (MSRS) Office, 60 Empire Drive, Suite 300, St. Paul, MN 55103.

## Funding Policy

	CSRS	CSRS Offset	FERS	PEPFF	SERF
Statutory authority					
Minnesota chapter	N/A	N/A	N/A	353	352
United States code	Title 5, Chapter 83	Title 5, Chapter 83	Title 5, Chapter 84	N/A	N/A
Required contribution rates (%)					
Active plan members	7.00%	1.20%	0.80%	9.60%	5.00%
University	7.00%	8.51%	11.90%	14.40%	5.00%
Required contributions (\$)					
Employee					
2012	\$226	\$5	\$61	\$462	\$20,244
2011	271	5	66	471	21,269
2010	281	4	68	422	18,752
University					
2012	\$226	\$33	\$900	\$693	\$20,249
2011	271	32	957	706	21,285
2010	281	34	974	633	18,756

In the 2006 Legislative Session, a bill was passed to build up MSRS (affecting SERF) funding levels. As a result, the rates for employee and employer contributions increased from 4.0 percent to 5.0 percent over four years beginning July 1, 2007. The PEPFF contribution rates increased on January 1, 2011, to 9.6 percent for the employee and 14.4 percent for the employer.

### 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 198 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)	\$	409
Interest on net pension obligation (NPO)		146
Adjustment to ARC		(378)
Annual pension cost (expense)	\$	177
Less contributions made –		
fiscal year ended June 30, 2012		(409)
Decrease in NPO	\$	(232)
NPO—June 30, 2011		2,914
NPO—June 30, 2012	\$	2,682

## Three-Year Trend Information

Fiscal year ended	Annual pension cost	Employer contribution	Percentage of annual pension cost contributed	Net pension obligation
6/30/2012	\$177	\$409	231.07%	\$2,682
6/30/2011	136	356	261.76%	2,914
6/30/2010	108	339	313.89%	3,134

## 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)
7/1/2011	\$2,106	\$5,263	\$3,157	40.02%	\$731	431.87%
7/1/2010	2,621	5,578	2,957	46.99%	951	310.94%
7/1/2009	3,252	6,083	2,831	53.46%	1,345	210.48%

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

## Actuarial Methods and Assumptions

Valuation date	7/1/2011
Actuarial cost method	Entry age
Amortization method	Level of dollar by 6/30/2021, closed
Remaining amortization period	10 years
Asset valuation method	Fair market value, smoothed over 5 years
Actuarial assumptions	
Investment rate of return	5.00%
Projected salary increase	3.50%
Cost of living adjustment	2.50%

## Defined Contribution Plans

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

### Description of Plans and Contribution Information

#### Faculty Retirement Plan (FRP)

The Faculty Retirement Plan (FRP) is a mandatory retirement savings/investment plan contingent on meeting certain prescribed eligibility requirements. Pursuant to the University's Board of Regents governing authority, in compliance with Section 401(a) of the Internal Revenue Code, it authorizes the University to contribute to the plan and governs the requirements of this plan. Eligibility requirements involve an employee appointment of at least nine months; employee appointments between 67 to 99 percent time are granted prorated participation. Other eligibility requirements may involve a waiting period based on salary class. The plan is funded through employee pre-tax contributions and University contributions. Eligible academic employees with hire dates prior to January 2, 2012 contribute 2.5 percent of covered salary and the University contributes 13.0 percent. Eligible employees with a start date (or were rehired) on or after January 2, 2012, contribute 5.5 percent of covered salary and the University contributes 10.0 percent. The FRP covers approximately 7,800 active faculty and professional and administrative (P&A) staff. This amount includes approximately 140 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 4,200 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 870 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 2012

	FRP	ORP	457	415(m)
Employee	\$17,558	\$38,560	\$11,271	N/A
University	90,959	386	N/A	609

## 7. Related Organization

The University is responsible for appointing 8 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 \$186,973 on June 30, 2012. The estimated cost to complete these facilities is \$358,449, which is to be funded from plant fund assets and \$148,571 in appropriations available from the State of Minnesota as of June 30, 2012.

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. In fiscal year 2009, the contract was extended for five years, with a contract end date of May 2014. 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. Included in the leases for real property is an agreement between Gateway and the University of Minnesota for a rent obligation through September 2014. Total operating lease expenditures for the years ended June 30, 2012 and 2011, were \$21,246 and \$18,217, respectively, of which \$17,784 and \$15,449 were for real property and \$3,462 and \$2,767 were for equipment, respectively.



The future steam plant and operating lease commitments as of June 30, 2012, for the next five years and in subsequent five-year periods are as follows:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2013	\$500	\$15,508	\$16,008
2014	500	12,746	13,246
2015		8,160	8,160
2016		5,398	5,398
2017		5,105	5,105
2018-2022		24,559	24,559
2023-2027		8,078	8,078
2028-2032		7,924	7,924
2033-2037		5,122	5,122
Total commitments	\$1,000	\$92,600	\$93,600

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

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

## 9. Self-Insurance Programs

The University is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly-owned, single parent captive insurance company (see Note 1). Claims are reported to a third-party administrator, which pays expenses and estimates claim liabilities. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In addition, an actuarial liability is established for incurred but not reported (IBNR) claims using a discount rate of 1.5 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, 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. A medical conversion carrier provides policies to the University under which terminated employees are able to convert their UPlan coverage to single coverage once their COBRA rights expire. 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.



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.

Effective September 1, 2004, the University changed its medical coverage for eligible graduate assistants from a fully insured program to a self-insured program. Under the graduate assistant medical plan, the University pays claims and establishes reserves. The program is administered by HealthPartners. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded. The Graduate Assistant Plan also offers self-insured Dental Plan benefits at Boynton Health Service without a third party administrator.

The University's medical (health) coverage for eligible students and their dependents is a self-insured program (Student Health Benefit Plan). Under the Student Health Benefit Plan, the University pays claims and establishes reserves, and the administration of the program is handled by Blue Cross and Blue Shield of Minnesota. The administrator offers medical conversion policies to eligible University students who are able to convert their SHBP coverage to single coverage after graduation. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than \$250,000 in a single year in addition to aggregate stop-loss coverage for claims totals over 115 percent of plan year claims. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded. Effective September 1, 2005, the University negotiated a new 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.

Effective July 1, 2010, the University changed its medical coverage for eligible Medical Residents and Fellows from a fully insured program to 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, 2012, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	\$7,863	\$2,110	(\$1,584)	(\$247)	\$8,142
Workers' compensation	11,965	2,969	(2,969)	(391)	11,574
UPlan medical	16,610	211,061	(209,338)	2,806	21,139
UPlan dental	1,104	17,189	(16,657)	(640)	996
Graduate assistant health plan	1,338	18,674	(18,673)	(141)	1,198
Student health plan	4,651			(90)	4,561
Medical Residents & Fellows	458			41	499

Reported liabilities as of June 30, 2011, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	\$7,818	\$2,345	(\$2,215)	(\$85)	\$7,863
Workers' compensation	12,683	3,517	(3,517)	(718)	11,965
UPlan medical	16,749	210,971	(209,593)	(1,517)	16,610
UPlan dental	624	16,798	(16,147)	(171)	1,104
Graduate assistant health plan	355	18,865	(18,865)	983	1,338
Student health plan	916			3,735	4,651
Medical Residents & Fellows				458	458

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, 2012 and 2011 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

These incentives provide medical and dental benefits and lump sum payments to eligible employees as defined in the Retirement Incentive Option (RIO) Program. On May 9, 2008, the Board of Regents approved the reinstatement of the second RIO Program (RIO2), an opportunity for employees to elect voluntary retirement to minimize involuntary workforce reductions. RIO2 covered Faculty, Professional and Administrative (P&A), Civil Service, and Radio and Television Broadcast Technician employees who were actively employed at 75 percent time or greater; held an appointment term of nine months or greater on the last day of employment; met the specific age and years of service requirements; and were receiving UPlan benefits. Eligible employees were able to enroll in the program during the time period of May 15 through September 26, 2008, or no later than the effective date of retirement, whichever occurred first. Effective June 2, 2008, represented bargaining unit staff consisting of Minnesota Teamsters Public and Law Enforcement Employees Union, Law Enforcement Labor Services, Inc., and AFSCME Units 4, 6, and 7 could elect to enroll in RIO2 through September 26, 2008, or no later than the effective date of retirement, whichever occurred first. RIO2 provided a maximum of 36 months of medical and dental subsidy following an employee's last day of employment. The subsidy and coverage is the same as if the retiree had remained employed. The University's contribution was based on the employee's coverage level, work location, and permanent residence as of the last day of employment. The outstanding liability is calculated using the discounted present value of expected future benefit payments based on the projection of benefits, an initial

healthcare cost trend rate of 6.85 percent and a discount rate of 4.0 percent. Benefits provided impact all University campuses.

The third Retirement Incentive Option (RIO3), an opportunity for voluntary retirement for eligible University of Minnesota employees, was approved by the Board of Regents on February 11, 2011. RIO3 covered Faculty, P&A, Civil Service, Union Represented, and University employees enrolled in federal health benefits who were actively employed at 75 percent time or greater; held an appointment term of nine months or greater on the last day of employment; met the specific age and years of service requirements; and were receiving benefits. Eligible employees were able to enroll in the program during the time period of February 15 through May 15, 2011, or no later than the effective date of retirement, whichever occurred first. Under the program, the University deposited a lump sum amount to the State of Minnesota's Health Care Savings Plan (HCSP), shortly following the last day of employment, which could be no later than January 11, 2012. These lump sums were determined by the individual's coverage level. No ongoing healthcare subsidy was provided, though retirees under RIO3 could continue to participate in the University of Minnesota retiree medical and dental plans on the same basis as any other retiree.

### **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 contributions as of June 30	Number of staff members	Liability amount
2012	122	\$1,473
2011	273	3,510

### Civil Service Contracts

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

University contributions as of June 30	Number of staff members	Liability amount
2012	139	\$1,763
2011	282	3,438

### Faculty Contracts

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

University contributions as of June 30	Number of staff members	Liability amount
2012	95	\$1,089
2011	146	1,661

### Graduate Assistant Contracts

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

University contributions as of June 30	Number of staff members	Liability amount
2012	5	\$6
2011	69	142

### Represented Bargaining Unit Staff Contracts

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

University contributions as of June 30	Number of staff members	Liability amount
2012	339	\$3,801
2011	524	6,238

## 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 2012:

Beneficiary type	Beneficiary annual rate
	(Actual amounts, not rounded to thousands)
Non-Medicare retiree	\$6,295
COBRA	6,421
Disabled Participants	6,295

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2012, the University paid \$5,944 on behalf of former employees and eligible disabilitants who participate in the UPlan.

## Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution (ARC)	\$26,157
Interest on net OPEB obligation	1,765
Adjustment to annual required contribution	(3,122)
Annual OPEB cost (expense)	24,800
Less contributions made –	
fiscal year ended June 30, 2012	(5,944)
Increase in net OPEB obligation	18,856
Net OPEB obligation—June 30, 2011	44,131
Net OPEB obligation—June 30, 2012	\$62,987

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
6/30/2012	\$24,800	\$5,944	24.0%	\$62,987
6/30/2011	19,939	9,290	46.6%	44,131
6/30/2010	18,999	8,041	42.3%	33,482

### **Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2012, is as follows:

Actuarial accrued liability (AAL)	\$116,182
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	116,182
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Increase in net OPEB obligation	\$18,856
Covered payroll (active plan members)	1,222,548
UAAL as a percentage of covered payroll	9.50%

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. Included in the AAL is a change of \$2,940 due to the impact of the RIO Program being reinstated during fiscal year 2008. The change in the liability is a result of eligible retirees electing retirement under the RIO Program and choosing to continue UPlan coverage after the RIO Program benefits are fulfilled.

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, 2012.

### **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	7/1/2012
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	4.00%
Projected Payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	6.85%
2nd year rate	6.70%
Ultimate rate	5.50%
Year ultimate rate reached	2060

## 12. Operating Expenses by Natural Classification

Operating expenses by natural classification for June 30, 2012, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 613,119	\$ 83,098			\$ 696,217
Research	415,064	218,135			633,199
Public service	153,896	91,592			245,488
Academic support	292,057	68,569			360,626
Student services	84,991	21,161			106,152
Institutional support	136,471	52,569			189,040
Operation and maintenance of plant	107,310	147,243			254,553
Scholarships and fellowships	7,660	2,517	\$ 41,837		52,014
Depreciation				\$ 183,875	183,875
Auxiliary enterprises	92,161	135,236			227,397
Other operating expense		(195)			(195)
	\$ 1,902,729	\$ 819,925	\$ 41,837	\$ 183,875	\$ 2,948,366

Operating expenses by natural classification for June 30, 2011, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	\$ 587,836	\$ 80,206			\$ 668,042
Research	414,361	211,294			625,655
Public service	147,979	77,722			225,701
Academic support	292,788	67,028			359,816
Student services	84,087	20,776			104,863
Institutional support	156,853	37,144			193,997
Operation and maintenance of plant	103,989	160,899			264,888
Scholarships and fellowships	6,455	2,782	\$ 43,073		52,310
Depreciation				\$ 163,689	163,689
Auxiliary enterprises	91,338	135,658			226,996
Other operating expense		67			67
	\$ 1,885,686	\$ 793,576	\$ 43,073	\$ 163,689	\$ 2,886,024



### **13. Subsequent Events**

Effective October 1, 2012, the University amended its line of credit agreement which backs the University's self-liquidity supporting its Commercial Paper Notes Series A, B, C, and D. The maximum line of credit was reduced from \$50,000 to \$40,000 and the term was extended for another one-year period with a current expiration of September 30, 2013.

For more information related to long-term debt, refer to Note 5.

### **14. Component Units**

The significant accounting policies and related note disclosures for investments, securities lending, temporarily restricted net assets, and permanently restricted net assets, as reported in the separately issued financial statements of the University of Minnesota Foundation (UMF) and the Minnesota Medical Foundation (MMF); as well as disclosures for guarantee agreements and financing agreements for the University Gateway Corporation (Gateway), are presented below.

#### **Summary of Significant Accounting Policies**

##### **University of Minnesota Foundation**

##### **Contributions**

Contributions, including unconditional promises to give, are recognized as revenues on an accrual basis. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at rates of 1.67 percent – 5.15 percent based on when the contribution was made. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history.

##### **Assets Held in Charitable Trusts**

UMF has entered into unitrust and annuity agreements as trustee that provide, among other matters, that the trustee shall pay to the beneficiaries an annual income payment until the income obligation is completed in accordance with the donor's trust agreement. UMF records the assets held in these trusts at fair value and the corresponding liability at the actuarially determined present value of payments to be made to the designated beneficiaries. The residual amount is recorded as contribution revenue at the time the trust is established. In subsequent periods, the liability under charitable trust agreements is adjusted and changes therein are reported as a component of the change in carrying value of trusts in the consolidated statement of activities. Upon termination of the income obligation, the assets of the trust are held by UMF in accordance with the donor's trust agreement.

##### **Gift Annuity Agreements**

UMF has entered into gift annuity agreements that provide that UMF shall pay to the designated beneficiaries an annual amount until the death of the designated beneficiaries. The payments continue even if the assets of the gift annuity fund have been exhausted. UMF records the assets received at fair value and a corresponding liability is recorded for the actuarially determined present value of payments to be made to the designated beneficiaries, with the residual amount recorded as contribution revenue. Upon the death of the beneficiaries, the assets of the gift annuity fund are held by UMF in accordance with the agreements.



## Beneficial Interest in Trusts

UMF has beneficial interests in charitable remainder, lead, and perpetual trusts that are held by other entities such as banks or charitable organizations. UMF records its interest in these trusts, upon discovery of their existence, at fair value as determined using the present value of the estimated future cash receipts to be received from the trust. Because of the complex issues related to collecting the data for these transactions, there can be a time delay in the recording of the asset because of the time needed for discovery, verification of UMF's rights, and determination of the valuation of future payments.

## Minnesota Medical Foundation

### Contributions

Contributions, which include pledges, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor.

Pledges are recorded as pledges receivable using discount rates ranging from 3.50 percent to 5.40 percent. Additionally, an allowance for uncollectible pledges is provided based on management's judgment, including factors such as aging schedules, prior collection history, and the nature of fundraising activity.

Investments, fixed assets, and contributed materials are initially recorded at fair value when received.

Contributions with donor-imposed conditions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When donor-imposed time conditions expire, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as net assets released from restriction on the statement of activities.

MMF wrote off approximately \$60 of uncollectible pledges for the year ended June 30, 2012 and approximately \$1,600 for the year ended June 30, 2011.

### Split-Interest Agreements

The split-interest agreements include charitable remainder and lead trusts, charitable gift annuities and perpetual trusts. MMF recognizes the contribution from charitable trusts when the trust is established and recognizes the contribution from the charitable annuity gifts when the agreement is executed.

When MMF is the trustee, the contribution amount is the difference between the fair value of assets received and the present value of the future cash flows expected to be paid to the designated beneficiaries. MMF recognizes a liability calculated as the net present value of estimated future cash disbursements to be paid to other beneficiaries. This liability is included in split-interest agreement liabilities on the statement of financial position. These assets are invested primarily in equity and fixed income mutual funds.

When MMF is not the trustee, the contribution amount is the present value of expected future cash flows from split-interest agreements.

### Interest in Charitable Trusts

MMF is the beneficiary of two perpetual trusts. MMF is not the trustee on either of these trusts.

Under the terms of one of these trust agreements dated November 27, 1944, MMF will receive a continual stream of quarterly payments equal to 5 percent annually of the fair value of the trust. Two additional trusts, associated with this 1944 trust, are currently making distributions to other beneficiaries. After the lives of these beneficiaries, these trusts will discontinue as separate trusts and roll over into the 1944 perpetual trust.

Using discount rates of 3.70 percent and 5.10 percent at June 30, 2012 and 2011, respectively, the present value of future benefits to be received by MMF was estimated to be \$34,203 and \$25,651 at June 30, 2012 and 2011, respectively. MMF received payments from the trust totaling \$86 and \$88 for the years ended June 30, 2012 and 2011, respectively.

The second trust agreement was established by the Last Will of its creator dated January 28, 1980. Under the terms of the trust, MMF will receive a continual stream of annual payments equal to 5 percent of the fair value of the trust. The fair value of the trust was \$471 and \$510 as of June 30, 2012 and 2011, respectively. MMF received payments from the trust of \$21 and \$24 for the years ended June 30, 2012 and 2011, respectively.

### Interest in Charitable Lead Trusts

MMF is the irrevocable beneficiary of three charitable lead trusts. Two of these charitable lead trusts were established during fiscal year 2000, and one during fiscal year 2011. MMF is not the trustee on any of these trusts.

The first of the 2000 trusts distributes \$440 annually to MMF. Based on current market valuations, payments are estimated to end in 2015. The second of the 2000 trusts distributes 9 percent of the fair value of the trust on a quarterly basis over a period of 20 years. Using discount rates of 3.70 percent and 5.10 percent as of June 30, 2012 and 2011, respectively, the present value of future benefits to be received by MMF was \$2,291 and \$3,162 at June 30, 2012 and 2011, respectively. MMF received payments from the trusts totaling \$672 and \$703 for the years ended June 30, 2012 and 2011, respectively.

MMF is also the beneficiary of a charitable lead trust established on August 25, 2010. This trust distributes 7 percent of the fair value of the trust on a quarterly basis over a period of 10 years. Using discount rates of 3.70 percent and 5.10 percent at June 30, 2012 and 2011, respectively, the present value of future benefits to be received by MMF was \$101 and \$114 at June 30, 2012 and 2011, respectively. MMF received payments from the trust totaling \$151 and \$9 for the years ended June 30, 2012 and 2011, respectively.

## Investments

### University of Minnesota Foundation

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 on June 30, 2012, are summarized as follows:

	Traditional structures	Alternate structures	Total
Cash and cash equivalents	\$ 117,368		\$ 117,368
Fixed income	230,025	\$ 21,061	251,086
Global equity	76,297	187,823	264,120
Hedge funds		292,250	292,250
Natural resources		91,213	91,213
Treasury inflation protected securities (TIPS)	65,534		65,534
Real estate		76,059	76,059
Private equity		371,093	371,093
Subtotal	489,224	1,039,499	1,528,723
Other investments not categorized above			3,389
Less charitable gift annuities reported separately			(32,121)
Total			\$ 1,499,991

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

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

Net asset values provided by external investment managers for alternative structures include estimates, appraisals, assumptions, and methods that are reviewed by management. It is possible that the redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and, consequently, the fair value of UMF's interests in the funds. UMF has \$1,039,499 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.

### Minnesota Medical Foundation

A substantial portion of the valuations included in the financial statements are provided to the MMF by third parties and are not calculated by MMF. These third parties follow generally accepted accounting principles (GAAP). In accordance with these principles, investments are carried at fair value based on quoted market prices or are recorded at approximate fair value based on financial models of hypothetical transactions.

Some valuations may also be determined and approved by the managers or valuation committees of the funds in which MMF invests. The fair value assigned to a particular security by the fund does not necessarily reflect the amount that would be realized in the current illiquid market. In addition, in light of the judgment involved in fair value decisions, there can be no assurance that a fair value assigned to a particular security by the fund is accurate.

MMF invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments as of June 30, 2012, are summarized as follows:

	Total
Cash and cash equivalents	\$ 25,263
Treasury inflation protected securities (TIPS)	4,016
U.S. government money market fund	6,934
Fixed income corporate bonds	852
Fixed income funds of funds	60,966
U.S. and foreign equity	359
Equity index funds	20,705
Equity fund of funds	94,283
Hedge funds	58,817
Global distressed debt	5,066
Private equity	3,306
Foreign private equity	3,843
Real estate	4,052
Venture capital	2,725
Natural resources & commodities	880
Subtotal	292,067
Less: investments loaned to broker	(3,441)
Total	\$ 288,626

Investments include funds held for the custody of others at June 30, 2012 and 2011 of \$1,263 and \$1,409, respectively.

Net investment return as of June 30, 2012, consists of the following:

Interest and dividend income	\$ 3,957
Net realized and unrealized investment gains (losses)	(15,522)
Subtotal	(11,565)
Less: net external investment manager and consultant fees	(248)
Total	\$ (11,813)

## Fair Value Measurements

### University of Minnesota Foundation

FASB Accounting Standards Codification 820 (ASC 820), *Fair Value Measurement*, established a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. 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 under FASB ASC 820 are described below:

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

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

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

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

The following table summarizes UMF's financial assets measured at value on a recurring basis at June 30, 2012:

	Fair value measurements using			Total fair value of assets at June 30, 2012
	Level 1	Level 2	Level 3	
Investments:				
Cash and cash equivalents	\$ 117,368			\$ 117,368
Fixed income:				
Asset backed securities		\$ 39,298		39,298
Mortgages		18,424		18,424
Alternative structures			\$ 21,061	21,061
Corporate bonds		1,086		1,086
Government		170,002		170,002
Other		1,215		1,215
Global equity:				
Small cap	21,914			21,914
Large cap	37,806	16,577		54,383
Alternative structures			187,823	187,823
Hedge funds:				
Directional long biased equity			109,872	109,872
Fixed income arbitrage			78,933	78,933
Long/short nonequity			50,880	50,880
Market neutral equity			32,984	32,984
Structured credit			19,581	19,581
Natural resources			91,213	91,213
Real estate			76,059	76,059
Treasury inflation protected securities (TIPS)		65,534		65,534
Private equity:				
Buyout			127,426	127,426
Distressed			68,435	68,435
Special situations			21,864	21,864
Venture capital			153,368	153,368
Other investments			3,389	3,389
<b>Total investments</b>	<b>\$ 177,088</b>	<b>\$ 312,136</b>	<b>\$ 1,042,888</b>	<b>\$ 1,532,112</b>
Gift annuities not categorized above	\$ 1,663			\$ 1,663
Beneficial interest in perpetual trusts			\$ 23,778	23,778
Beneficial interest in trusts			3,009	3,009

There were no transfers between Level 1 and Level 2 during the year ended June 30, 2012.

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, 2011	Investment income	Net realized and unrealized gains (losses)	Purchases	Sales	Transfers	Ending balance at June 30, 2012	Net change in unrealized gains (losses) included in change in net assets for the period relating to investments held at June 30, 2012
Fixed income:								
Alternative structures	\$ 23,597		\$ 2,416	\$ 3,102	\$ (8,054)		\$ 21,061	\$ 2,416
Global equity:								
Alternative structures	195,931	\$ 929	1,205	6,510	(16,752)		187,823	1,267
Hedge funds:								
Directional long-biased equity	114,952		1,418	10,171	(16,669)		109,872	1,418
Fixed income arbitrage	94,011		3,262		(18,340)		78,933	3,262
Fund of funds	44,402		(2,320)		(42,082)			(2,320)
Long/short nonequity	52,542		1,440	35,001	(38,103)		50,880	1,440
Market neutral equity	39,184		300		(6,500)		32,984	300
Structured credit			1,581	18,000			19,581	1,581
Natural resources	117,862		(12,520)	7,102	(21,231)		91,213	(12,367)
Real estate	71,872		3,429	21,877	(21,119)		76,059	3,429
Private equity:								
Buyout	137,493		(2,763)	7,375	(14,679)		127,426	(2,763)
Distressed	67,877		3,944	8,266	(11,652)		68,435	3,409
Special situations	11,611		(1,486)	15,673	(3,934)		21,864	(1,486)
Venture capital	158,967		13,741	15,734	(35,074)		153,368	13,988
Other investments	6,233	147	3,580	39	(6,610)		3,389	(26)
Total	\$ 1,136,534	\$ 1,076	\$ 17,227	\$ 148,850	\$ (260,799)	\$ -	\$ 1,042,888	\$ 13,548

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, 2011	Change in carrying value of trusts	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2012	Net change in unrealized gains (losses) included in change in net assets for the period relating to investments held at June 30, 2012
Beneficial interest in trusts	\$ 27,243	\$ (456)				\$ 26,787	\$ (456)

## Minnesota Medical Foundation

MMF follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. Level 1 includes common and preferred stock traded on active exchanges, such as the New York Stock Exchange, as well as

overnight repurchase agreements, short term commercial paper, money market mutual funds, and U.S. Treasury obligations that are traded by dealers or brokers in active over-the-counter markets.

Level 2 – Financial assets and liabilities are valued using quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. Level 2 includes asset backed securities, corporate bonds, certificates of deposit, municipal bonds, and hedge funds as noted in the disclosure in MMF’s footnote 5, Fair Value of Financial Instruments.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset. Level 3 includes global distressed debt, private equity, venture capital, natural resources, real estate, interests in charitable trusts, interests in charitable lead trusts, and interests in commercial annuity contracts.

The carrying amount of cash, accounts payable and accrued liabilities, grants payable, and investments held for custody of others approximate fair value because of the short maturity of those instruments. Investments in equity and debt securities and equity mutual funds are carried at fair value based on quoted market prices. Investments in limited partnerships are carried at fair value determined by the partnerships’ general partner. Although the custodial bank stated the investment collateral would be valued at quoted market prices the investment collateral and amounts payable under investment loan agreement are reported at fair value based on quoted market prices of the underlying investment or, in the absence of quoted market prices, valuations provided by the securities lending agent.

Interests in charitable trusts, charitable lead trusts, commercial annuity contracts, and pledges receivable are recorded at fair value using the present value of the estimated expected future cash flows. Student loans receivable approximates fair value because the related interest rates are not significantly different than current market rates. Split-interest agreement liabilities are carried at the present value of the estimated expected future cash flows using discount rates assumptions established upon initial recognition of the liability.

Assets measured at fair value on a recurring basis at June 30, 2012 are:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Investments	\$ 11,309	\$ 235,623	\$ 19,872	\$ 266,804
Investments collateral	993	545	339	1,877
Investment held for unitrusts, annuity trust, and gift annuities	9,670			9,670
Interest in charitable trusts			34,675	34,675
Interest in charitable lead trusts			2,393	2,393
Interest in commercial annuity contracts			586	586
<b>Total financial assets</b>	<b>\$ 21,972</b>	<b>\$ 236,168</b>	<b>\$ 57,865</b>	<b>\$ 316,005</b>

At June 30, 2012, MMF did not have any financial liabilities measured at fair value on a recurring basis.



The following table provides a summary of changes in fair value of MMF's Level 3 financial assets for the year ended June 30, 2012:

	Investments	Investment collateral	Interest in charitable trusts	Interest in charitable lead trusts	Interest in commercial annuities	Total Level 3 assets
Balance July 1, 2011	\$ 12,960	\$ 504	\$ 26,161	\$ 3,276	\$ 637	\$ 43,538
Net investment return	1,109	(11)	(97)			1,001
Change in value of SIA's			8,611	(883)	(51)	7,677
Net purchase and sales	5,803	(191)				5,612
Net transfers out		37				37
Balance June 30, 2012	\$ 19,872	\$ 339	\$ 34,675	\$ 2,393	\$ 586	\$ 57,865

## Securities Lending

### Minnesota Medical Foundation

In October 2008, MMF, along with three other nonprofit organizations, filed suit against Wells Fargo Bank for a number of claims related to the bank's Securities Lending Program. In June 2010, a jury found the bank liable for breach of fiduciary duty and violation of the Minnesota Consumer Fraud Act. Based on the jury verdict, the district court entered judgment for MMF in the amount of \$5,947. In addition, judgment was granted to the plaintiffs for pre and post-judgment interest, and certain attorneys' fees and expenses.

On July 14, 2011, Wells Fargo filed an appeal with the Minnesota Court of Appeals.

On April 16, 2012, the Court of Appeals affirmed the trial court decision.

On May 16, 2012, Wells Fargo filed a Petition for Review of Decision of Court of Appeals to the Minnesota Supreme Court and on June 27, 2012, the Minnesota Supreme Court denied Wells Fargo's petition.

These financial statements reflect a judgment receivable in the amount of \$7,315 representing the judgment awarded net of fees and interest earned. This amount was subsequently received in July, 2012 and in August, 2012 MMF exited the Securities Lending Program.

Valuations of the collateral pools are provided to MMF by the custodial bank. For purposes of determining the values of collateral investments reflected on a balance sheet, the custodial bank uses financial models or other inputs where quoted prices in an active market are not available. Such valuations reflect hypothetical transactions, are subject to uncertainties, and accordingly do not reflect the amount that would be realized in a current sale. In addition, in light of the judgment involved in the fair value decisions by the custodial bank, and given the current market conditions, the illiquidity of many of the securities in the collateral pool, and the credit risk associated with securities in the collateral pools, there can be no assurance that a fair value assigned to a particular security by the custodial bank is accurate.

MMF had equity and fixed income securities with fair values of \$3,441 and \$4,031 on loan at June 30, 2012 and 2011, respectively. MMF reflects the collateral received for securities on loan as an asset and its obligation to return the collateral as a liability on its statement of financial position. An asset of \$1,877 and \$2,497 and the related liability representing the obligation to return collateral received of \$3,510 and \$4,120 are reflected on the statement of financial position as of June 30, 2012 and 2011, respectively.



## Net Assets

### University of Minnesota Foundation

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, 2012, for the following purposes.

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

Capital improvement/facilities	\$ 6,863
Faculty support	6,625
Scholarships and fellowships	83,368
Lectureships, professorships, and chairs	143,074
College program support	51,006
Research	8,794
Other	1,522
Subtotal	\$ 301,252

#### Gifts and other unexpended revenues and gains available for:

Capital improvement/facilities	\$ 83,079
Faculty support	10,364
Scholarships and fellowships	125,621
Lectureships, professorships, and chairs	35,486
College program support	235,874
Research	28,279
Trusts	9,334
Other	7,106
Subtotal	535,143
Total temporarily restricted net assets	\$ 836,395

## Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The permanently restricted net asset balances, and purposes the income are expendable to support, as of June 30, 2012, are as follows:

Capital improvement/facilities	\$ 3,656
Faculty support	11,632
Scholarships and fellowships	294,675
Lectureships, professorships, and chairs	194,214
College program support	57,691
Research	11,922
Trusts	37,650
Other	1,629
Total	\$ 613,069

## Minnesota Medical Foundation

MMF follows an accounting standard that provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA).

Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets of MMF and changes therein are classified and reported as follows:

## Temporarily Restricted Net Assets

This classification includes net assets that have been restricted by donors for specific purposes or are not available for use until a specific time. These consist principally of gifts and grants for designated purposes, investment return, and payout from permanent endowments. Such net assets are retained until expended as provided by the donor. Temporarily restricted net assets are available as of June 30, 2012, for the following purposes:

Medical School - Twin Cities	\$ 87,921
Student scholarships and support	8,000
Academic Health Center	102,026
Faculty grants and awards	9,381
School of Public Health	2,973
Medical School - Duluth	3,207
Total	\$ 213,508

## Permanently Restricted Net Assets

This classification includes net assets that have been permanently restricted by donors who stipulate the resources be maintained by MMF in accordance with the memorandum of agreement. Earnings and growth in excess of payout (4.75 percent of the average market value over 20 trailing quarters) are reinvested and permanently restricted by MMF.

The permanently restricted net asset balances, and purposes the income is expendable to support, as of June 30, 2012, are as follows:

Medical School - Twin Cities	\$	133,411
Student scholarships and support		29,006
Academic Health Center		27,643
Faculty grants and awards		6,785
School of Public Health		7,165
Medical School - Duluth		1,393
Total	\$	205,403

## **Guarantee Agreement and Financing Agreements**

### **University Gateway Corporation**

#### **Guarantee Agreement**

The University of Minnesota Foundation guarantees the Series 1997, 2002, 2006, and 2009 bonds. Gateway pays a credit enhancement fee equal to 0.5 percent (50 basis points) of the outstanding balance on Series 1997, 2002, and 2006 and 0.65 percent (65 basis points) on Series 2009. The fee is calculated and paid on a semi-annual basis.

Gateway recorded \$279 and \$282 of bond guarantee fee expense paid to the University of Minnesota Foundation for the years ended June 30, 2012 and 2011, respectively. The amount is included in financing expense on the statement of activities and changes in net assets.

#### **Financing Agreements**

##### **Bonds payable**

The City of Minneapolis revenue bonds, Series 1997-B, Series 2002, Series 2006, and Series 2009 are collateralized by substantially all the assets of Gateway, and repayment of the revenue bonds will be made through lease payments of the occupants.

To minimize interest cost, the University of Minnesota Foundation has guaranteed the revenue bonds (see Guarantee Agreement above). In addition, Gateway's Board of Directors' resolutions require mandatory capital contributions from the beneficiary organizations should the cash flow of Gateway be insufficient to meet the debt service obligations of Gateway.

Pursuant to a mortgage between Gateway and the trustee, the obligations to pay the principal and interest on the bonds have been collateralized by the mortgage on the property and equipment and an assignment of rents.

In July 2005, Gateway entered into an interest rate swap arrangement with a bank to fix the interest rate on \$12,000 of variable-rate debt at an annual interest rate of 3.93 percent. The swap arrangement is indexed against the Bond Market Association Municipal Swap Index. In November 2011, the swap was amended to convert the index from SIFMA to 70 percent 1-month LIBOR, resulting in a new annual interest rate of 3.41 percent. The arrangement requires the difference between the fixed rate of interest and the index to be settled monthly. Included in interest expense for the years ended June 30, 2012 and 2011 is approximately \$412 and \$439, respectively, paid to the bank. The change in fair value of the interest rate swap arrangement has been recorded in the statement of activities and changes in net assets, resulting in an unrealized loss of \$1,643 and an unrealized gain of \$123 for the years ended June 30, 2012 and 2011, respectively.

Gateway holds these derivative instruments for the fixed interest rate certainty they provide, and therefore entered into interest rate swap agreement to fix the rate of interest on the bond as follows, as of June 30, 2012:

Revenue Bonds	Notional Amounts	Maturity Date	Weighted Average Interest Rate
Series 1997B	\$ 12,000	2025	3.41%

The swap agreement contains the same payment dates as the corresponding original or expected issue. The fair values of the swap agreements are included as a liability on the statement of financial position in the amounts of \$2,925 and \$1,282 at June 30, 2012 and 2011, respectively. The fair value of the interest rate swap agreement represents the estimated amount Gateway would pay to terminate the agreement.

Approximate amounts payable under financing agreements at June 30, 2012 and 2011 consisted of the following:

	2012	2011
City of Minneapolis revenue bonds, Series 1997B, with interest at a variable rate, principal due December 2027	\$ 15,000	\$ 15,000
City of Minneapolis revenue bonds, Series 2002, with interest at a variable rate, principal due June 2032	7,350	7,350
City of Minneapolis revenue bonds, Series 2006, with interest ranging from 4.00% to 4.50%, maturing serially from December 2006 through December 2031	19,530	20,145
City of Minneapolis revenue bonds, Series 2009, with interest at a variable rate, principal due in December 2040	10,500	10,500
Subtotal	52,380	52,995
Less discount on Series 2006 bond	(70)	(73)
Total	\$ 52,310	\$ 52,922

Aggregate annual maturities are approximately as follows:

Fiscal years ending June 30	
2013	\$ 640
2014	665
2015	695
2016	720
2017	750
Thereafter	48,910
Total	\$ 52,380

The bonds are subject to earlier redemption upon the occurrence of certain events as specified in the bond documents.

### **Required Supplementary Information**

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

**Required Supplementary Information (RSI) (Unaudited)**

Years ended June 30, 2012 and 2011 (in thousands)

**Schedule of Funding Progress for the SBP Plan**

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)
7/1/2011	\$2,106	\$5,263	\$3,157	40.02%	\$731	431.87%
7/1/2010	2,621	5,578	2,957	46.99%	951	310.94%
7/1/2009	3,252	6,083	2,831	53.46%	1,345	210.48%

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

**Schedule of Funding Progress for 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)
7/1/2012	\$ -	\$116,182	\$116,182	0.00%	\$1,222,548	9.50%
7/1/2011	-	99,135	99,135	0.00%	1,175,527	8.43%
7/1/2010	-	88,936	88,936	0.00%	1,189,710	7.48%

Additional information related to OPEB is provided in Note 11.

**Supplemental Schedules**  
**for the Years Ended June 30, 2012 and 2011**

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## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

The Board of Regents  
University of Minnesota  
Minneapolis, Minnesota

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as of June 30, 2012 and 2011 taken as a whole. The accompanying schedules of net assets by campus, and of revenues, expenses, and changes in net assets by campus as of and for the years ended June 30, 2012 and 2011 are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the University's management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion such schedules are fairly stated in all material respects in relation to the financial statements as a whole.



October 31, 2012



## Statements of Net Assets by Campus

June 30, 2012 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 4,314	\$ 61,093	\$ 4,673	\$ 2,853	\$ 94,818	\$ 167,751
Short-term investments					133,586	133,586
Receivables, net	1,522	7,110	654	630	233,033	242,949
Inventories	186	2,213	164		20,762	23,325
Student loans receivable, net	116	1,702	233		6,814	8,865
Prepaid expenses and deferred charges	54	313	42	5	8,050	8,464
Other assets					221	221
Total current assets	6,192	72,431	5,766	3,488	497,284	585,161
Noncurrent assets						
Restricted cash and cash equivalents					187,769	187,769
Investments	2,669	76,100	2,920		1,643,981	1,725,670
Receivables, net					548	548
Student loan receivables	604	8,637	1,233		42,465	52,939
Prepaid expenses and deferred charges					4,999	4,999
Other assets					13	13
Capital assets, net	38,768	221,845	71,406	19,987	2,344,945	2,696,951
Total noncurrent assets	42,041	306,582	75,559	19,987	4,224,720	4,668,889
Total assets	48,233	379,013	81,325	23,475	4,722,004	5,254,050
<b>Liabilities</b>						
Current liabilities						
Accounts payable	729	5,363	771	210	137,000	144,073
Accrued liabilities and other	1,301	16,920	2,029	592	207,518	228,360
Unearned Income		1,074	26	42	58,560	59,702
Long term liabilities - current portion					293,941	293,941
Total current liabilities	2,030	23,357	2,826	844	697,019	726,076
Noncurrent liabilities						
Accrued liabilities and other	1,510	15,796	2,361	167	147,425	167,259
Unearned income					324	324
Long term liabilities					932,448	932,448
Total noncurrent liabilities	1,510	15,796	2,361	167	1,080,197	1,100,031
Total liabilities	3,540	39,153	5,187	1,011	1,777,216	1,826,107
<b>Net Assets</b>						
Unrestricted	2,292	26,675	(939)	175	699,145	727,348
Restricted						
Expendable	2,613	38,407	4,667	2,302	736,454	784,443
Nonexpendable	1,019	52,932	1,055		210,150	265,156
Invested in capital assets, net of related debt	38,768	221,845	71,354	19,987	1,299,042	1,650,996
Total net assets	\$ 44,692	\$ 339,859	\$ 76,137	\$ 22,464	\$ 2,944,791	\$ 3,427,943

# Statements of Net Assets by Campus

June 30, 2011 (in thousands)

(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 6,419	\$ 64,500	\$ 5,505	\$ 4,448	\$ 162,221	\$ 243,093
Short-term investments					52,265	52,265
Receivables, net	1,866	11,328	1,132	645	243,820	258,791
Inventories	121	2,285	350		21,216	23,972
Student loans receivable, net	124	1,643	234		6,722	8,723
Prepaid expenses and deferred charges	16	294	69		3,111	3,490
Other assets					221	221
Total current assets	8,546	80,050	7,290	5,093	489,576	590,555
Noncurrent assets						
Restricted cash and cash equivalents					175,939	175,939
Investments	2,660	70,593	2,883		1,519,719	1,595,855
Receivables, net					562	562
Student loan receivables	657	8,916	1,198		43,040	53,811
Prepaid expenses and deferred charges					3,957	3,957
Other assets					27	27
Capital assets, net	38,734	228,554	74,022	21,683	2,242,079	2,605,072
Total noncurrent assets	42,051	308,063	78,103	21,683	3,985,323	4,435,223
Total assets	50,597	388,113	85,393	26,776	4,474,899	5,025,778
<b>Liabilities</b>						
Current liabilities						
Accounts payable	719	5,663	694	222	133,793	141,091
Accrued liabilities and other	1,288	18,585	2,129	583	204,913	227,498
Unearned Income	36	1,113	163	39	58,467	59,818
Long term liabilities - current portion					305,514	305,514
Total current liabilities	2,043	25,361	2,986	844	702,687	733,921
Noncurrent liabilities						
Accrued liabilities and other	1,356	15,075	2,269	106	129,407	148,213
Unearned income					497	497
Long term liabilities					839,905	839,905
Total noncurrent liabilities	1,356	15,075	2,269	106	969,809	988,615
Total liabilities	3,399	40,436	5,255	950	1,672,496	1,722,536
<b>Net Assets</b>						
Unrestricted	5,134	44,664	185	1,176	556,205	607,364
Restricted						
Expendable	2,309	27,179	4,885	2,968	765,517	802,858
Nonexpendable	1,022	47,279	1,047		204,261	253,609
Invested in capital assets, net of related debt	38,733	228,554	74,021	21,683	1,276,420	1,639,411
Total net assets	\$ 47,198	\$ 347,676	\$ 80,138	\$ 25,827	\$ 2,802,403	\$ 3,303,242

# Statements of Revenues, Expenses, and Changes in Net Assets by Campus

Year ended June 30, 2012 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
<b>Revenues</b>						
Operating revenues						
Student tuition and fees, net	\$ 9,688	\$ 90,805	\$ 9,770	\$ 4,238	\$ 581,777	\$ 696,278
Federal grants and contracts	394	10,020	730	153	499,390	510,687
State and other government grants	73	2,588	26	(10)	56,954	59,631
Nongovernmental grants and contracts	591	2,947	356	76	284,522	288,492
Student loan interest income	16	304	39		1,507	1,866
Sales and services of educational activities	363	4,396	232	8	155,231	160,230
Auxiliary enterprises, net	3,716	38,033	6,125	1,057	302,640	351,571
Other operating revenues					162	162
Total operating revenues	14,841	149,093	17,278	5,522	1,882,183	2,068,917
<b>Expenses</b>						
Operating expenses						
Educational and general						
Instruction	8,529	61,607	11,368	1,847	612,866	696,217
Research	172	17,803	906	587	613,731	633,199
Public service	552	7,627	643	21	236,645	245,488
Academic support	2,606	22,081	4,311	1,083	330,545	360,626
Student services	2,429	12,602	3,883	1,438	85,800	106,152
Institutional support	2,430	11,842	3,676	4,600	166,492	189,040
Operation and maintenance of plant	4,682	27,797	6,658	3	215,413	254,553
Scholarships and fellowships	404	2,526	1,176	147	47,761	52,014
Depreciation	1,608	11,401	3,574	1,613	165,679	183,875
Auxiliary enterprises	4,634	31,668	6,882	1,599	182,614	227,397
Other operating expenses, net	(16)	(23)	(13)		(143)	(195)
Total operating expenses	28,030	206,931	43,064	12,938	2,657,403	2,948,366
<b>Operating Loss</b>	<b>(13,189)</b>	<b>(57,838)</b>	<b>(25,786)</b>	<b>(7,416)</b>	<b>(775,220)</b>	<b>(879,449)</b>
<b>Nonoperating Revenues (Expenses)</b>						
Federal appropriations			68		15,077	15,145
State appropriations	8,467	30,164	18,368	7,428	507,648	572,075
Grants	4,085	23,025	5,546		144,000	176,656
Gifts	454	3,941	613	52	137,940	143,000
Investment income, net	192	4,073	248		32,382	36,895
Interest on capital asset-related debt					(45,328)	(45,328)
Other nonoperating revenues, net	14	33	173		2,134	2,354
Net nonoperating revenues	13,212	61,236	25,016	7,480	793,853	900,797
<b>Income (Loss) Before Other Revenues</b>	<b>23</b>	<b>3,398</b>	<b>(770)</b>	<b>64</b>	<b>18,633</b>	<b>21,348</b>
Capital appropriations					60,570	60,570
Capital grants and gifts		372	8		30,969	31,349
Additions to permanent endowments		5,656	7		5,771	11,434
Transfers	248	1,592	770	(939)	(1,671)	-
Other internal charges	(2,777)	(18,835)	(4,016)	(2,488)	28,116	-
Total other revenues (expenses)	(2,529)	(11,215)	(3,231)	(3,427)	123,755	103,353
<b>Increase (Decrease) in Net Assets</b>	<b>(2,506)</b>	<b>(7,817)</b>	<b>(4,001)</b>	<b>(3,363)</b>	<b>142,388</b>	<b>124,701</b>
Net assets at beginning of year	47,198	347,676	80,138	25,827	2,802,403	3,303,242
Net assets at end of year	\$ 44,692	\$ 339,859	\$ 76,137	\$ 22,464	\$ 2,944,791	\$ 3,427,943

# Statements of Revenues, Expenses, and Changes in Net Assets by Campus

Year ended June 30, 2011 (in thousands)

(Unaudited)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
<b>Revenues</b>						
Operating revenues						
Student tuition and fees, net	\$ 7,831	\$ 81,852	\$ 7,505	\$ 2,869	\$ 533,985	\$ 634,042
Federal grants and contracts	310	9,376	1,439	46	480,552	491,723
State and other government grants	153	3,043	140	8	56,976	60,320
Nongovernmental grants and contracts	711	3,052	374	40	260,825	265,002
Student loan interest income	24	304	40		1,592	1,960
Sales and services of educational activities	386	4,004	185	29	113,266	117,870
Auxiliary enterprises, net	3,457	37,425	5,641	41	298,973	345,537
Other operating revenues					2,606	2,606
Total operating revenues	12,872	139,056	15,324	3,033	1,748,775	1,919,060
<b>Expenses</b>						
Operating expenses						
Educational and general						
Instruction	7,846	58,317	10,782	1,032	590,065	668,042
Research	(4)	17,212	332	487	607,628	625,655
Public service	560	6,938	808	(6)	217,401	225,701
Academic support	2,344	19,865	4,523	3,994	329,090	359,816
Student services	2,414	12,566	3,792	1,252	84,839	104,863
Institutional support	2,340	12,628	2,936	490	175,603	193,997
Operation and maintenance of plant	3,831	23,485	6,077	238	231,257	264,888
Scholarships and fellowships	237	2,580	986	119	48,388	52,310
Depreciation	1,469	11,435	3,164	1,572	146,049	163,689
Auxiliary enterprises	4,722	33,137	6,941		182,196	226,996
Other operating expenses, net	(26)	(34)	(89)		216	67
Total operating expenses	25,733	198,129	40,252	9,178	2,612,732	2,886,024
<b>Operating Loss</b>	<b>(12,861)</b>	<b>(59,073)</b>	<b>(24,928)</b>	<b>(6,145)</b>	<b>(863,957)</b>	<b>(966,964)</b>
<b>Nonoperating Revenues (Expenses)</b>						
Federal appropriations	891	6,002	1,335		61,188	69,416
State appropriations	10,419	40,390	19,793	7,819	544,879	623,300
Grants	3,939	21,567	5,431		143,597	174,534
Gifts	716	7,054	615	45	139,152	147,582
Investment income, net	193	4,116	253		176,303	180,865
Interest on capital asset-related debt					(36,592)	(36,592)
Other nonoperating revenues, net	(5)	(200)	76		(2,232)	(2,361)
Net nonoperating revenues	16,153	78,929	27,503	7,864	1,026,295	1,156,744
<b>Income (Loss) Before Other Revenues</b>	<b>3,292</b>	<b>19,856</b>	<b>2,575</b>	<b>1,719</b>	<b>162,338</b>	<b>189,780</b>
Capital appropriations					75,801	75,801
Capital grants and gifts		380			44,433	44,813
Additions to permanent endowments		916	17		1,185	2,118
Transfers	5,709	(8,023)	14,158	(5,049)	(6,795)	-
Other internal charges	(3,196)	(19,303)	(3,536)	(1,917)	27,952	-
Total other revenues (expenses)	2,513	(26,030)	10,639	(6,966)	142,576	122,732
<b>Increase (Decrease) in Net Assets</b>	<b>5,805</b>	<b>(6,174)</b>	<b>13,214</b>	<b>(5,247)</b>	<b>304,914</b>	<b>312,512</b>
Net assets at beginning of year	41,393	353,850	66,924	31,074	2,497,489	2,990,730
Net assets at end of year	\$ 47,198	\$ 347,676	\$ 80,138	\$ 25,827	\$ 2,802,403	\$ 3,303,242