University of Minnesota

Consolidated Financial Statements for the Years Ended June 30, 2013 and 2012, Independent Auditors' Report, and Management's Discussion and Analysis

Financial Report

Deloitte.

Deloitte & Touche LLP
Suite 2800
50 South Sixth Street
Minneapolis, MN 55402
USA

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

Independent Auditor's Report

Board of Regents
University of Minnesota
Minneapolis, Minnesota

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of net assets of the University of Minnesota (the "University") as of June 30, 2013 and 2012, the related consolidated statements of revenues, expenses, changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained and the reports of the other auditors are sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University as of June 30, 2013 and 2012, 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, 2013 and 2012, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University changed its method of accounting for discretely presented component units based on the adoption of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Deloitte & Touche LLP

November 1, 2013

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, 2013, 2012, and 2011. 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 $656.6 million, $633.2 million, and $625.7 million in fiscal years 2013, 2012, and 2011, 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 Position; the Consolidated Statements of Revenues, Expenses, and Changes in Net Position; and the Consolidated Statements of Cash Flows. All are reported on a consolidated basis for the University as a whole. Also required are the financial results of the University's legally separate component units.

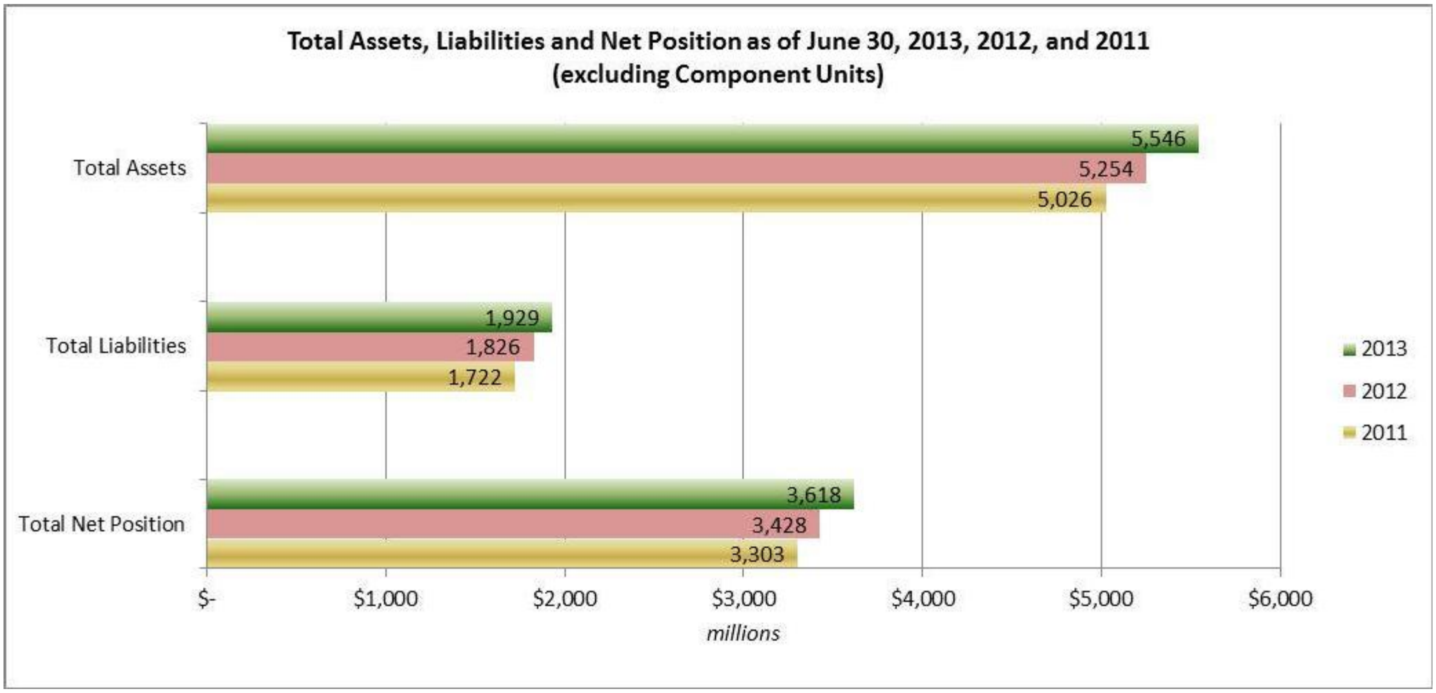
In fiscal year 2013, the University implemented GASB Statement No. 60 (GASB 60), *Accounting and Financial Reporting for Service Concession Arrangements,* GASB Statement No. 61 (GASB 61), *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34,* GASB Statement No. 62 (GASB 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position.*

GASB 63 required the Statement of Net Assets to include two additional categories for deferred outflows and inflows of resources. Deferred outflows of resources are defined as a consumption of net assets by the entity that is applicable to a future reporting period. Deferred inflows of resources are an acquisition of net assets by an entity that is applicable to a future reporting period. The Statement of Net Assets has been updated to include these additional categories. The University did not have any activity to report under these categories. GASB 63 also amended the net asset reporting requirement to rename Net Assets to Net Position. As a result, the Statement of Net Assets has been renamed to the Statement of Net Position. All references in the annual report have been renamed from Net Assets to Net Position.

Financial Highlights

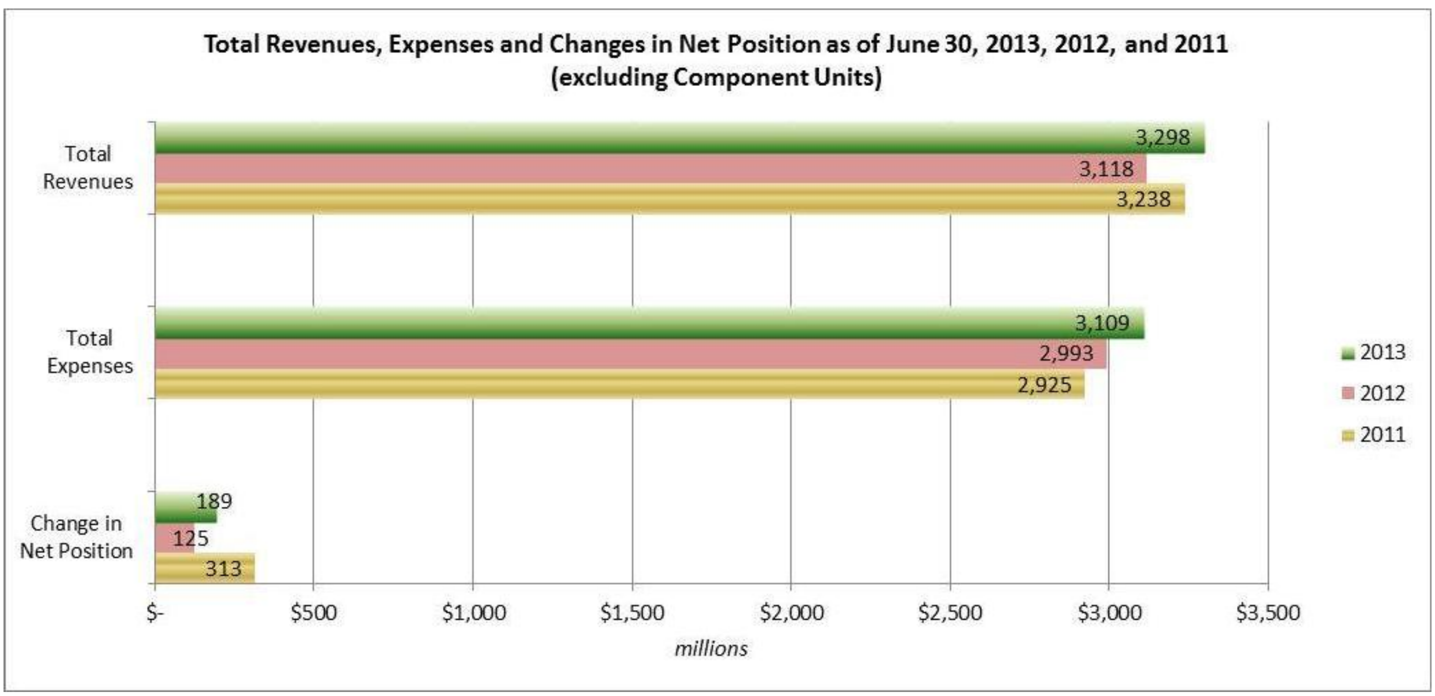
The University's financial position remains strong with assets of $5.5 billion and liabilities of $1.9 billion as of June 30, 2013 compared to assets of $5.3 billion and liabilities of $1.8 billion as of June 30, 2012. The University's net position, the difference between total assets and total liabilities, increased year over year to $3.6 billion as of June 30, 2013 compared to $3.4 billion as of June 30, 2012.

The following chart summarizes total assets, liabilities and net position for the periods ending June 30, 2013, 2012 and 2011, respectively:



The change in net position represents the financial results during the fiscal year and is the difference between total revenue and total expense. The University's net position increased $189.8 million in fiscal year 2013 and $124.7 million in fiscal year 2012.

The following chart summarizes total revenues, expenses and the changes in net position for the periods ending June 30, 2013, 2012 and 2011, respectively:



The University experienced an increase in total revenue of $179.7 million or 5.8% with operating revenues contributing $11.5 million or 0.6% of the increase. Total expenses increased $114.6 million or 3.8%

primarily consisting of operating expenses. The University continues to focus on instruction, research and public service while continuing to emphasize controlling operating expenses.

Consolidated Statements of Net Position

The Consolidated Statement of Net Position presents 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 position under four separate classifications.

A comparison of the university's assets, liabilities, and net position as of June 30, 2013, 2012 and 2011 is summarized in the table below:

Condensed Statement of Net Position
(in thousands)

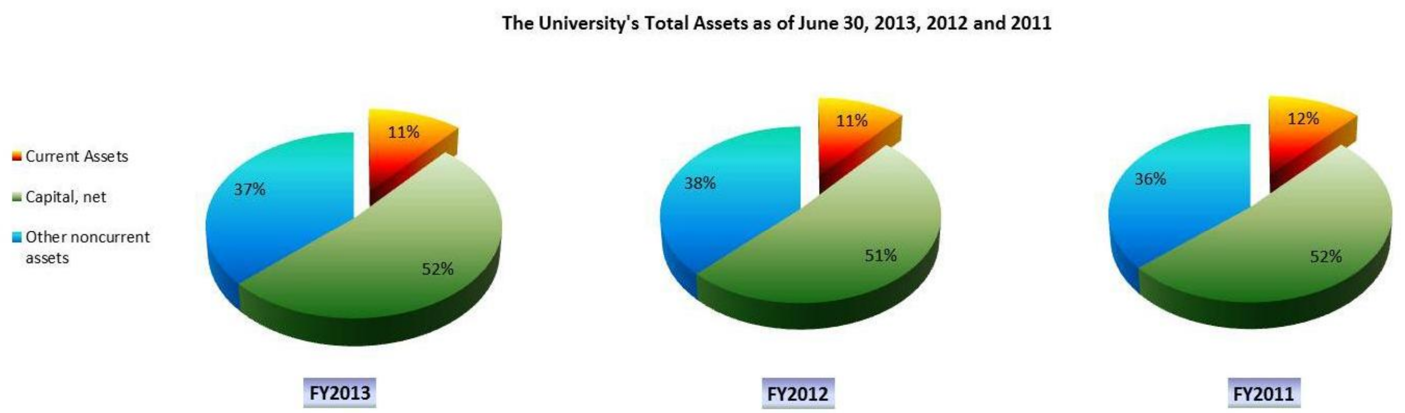
	2013	2012	2011
Assets			
Current assets	$ 629,376	$ 585,161	$ 590,555
Noncurrent assets, excluding capital assets	2,040,048	1,971,938	1,830,151
Capital assets, net	2,876,914	2,696,951	2,605,072
Total assets	5,546,338	5,254,050	5,025,778
Liabilities			
Current liabilities	443,100	432,135	428,407
Noncurrent liabilities, excluding long-term debt	184,726	167,583	148,710
Long-term debt	1,300,730	1,226,389	1,145,419
Total liabilities	1,928,556	1,826,107	1,722,536
Net position			
Unrestricted	820,146	727,348	607,364
Restricted—expendable	865,819	784,443	802,858
Restricted—nonexpendable	277,601	265,156	253,609
Net investment in capital assets	1,654,216	1,650,996	1,639,411
Total net position	3,617,782	3,427,943	3,303,242
Total net position and liabilities	$ 5,546,338	$ 5,254,050	$ 5,025,778

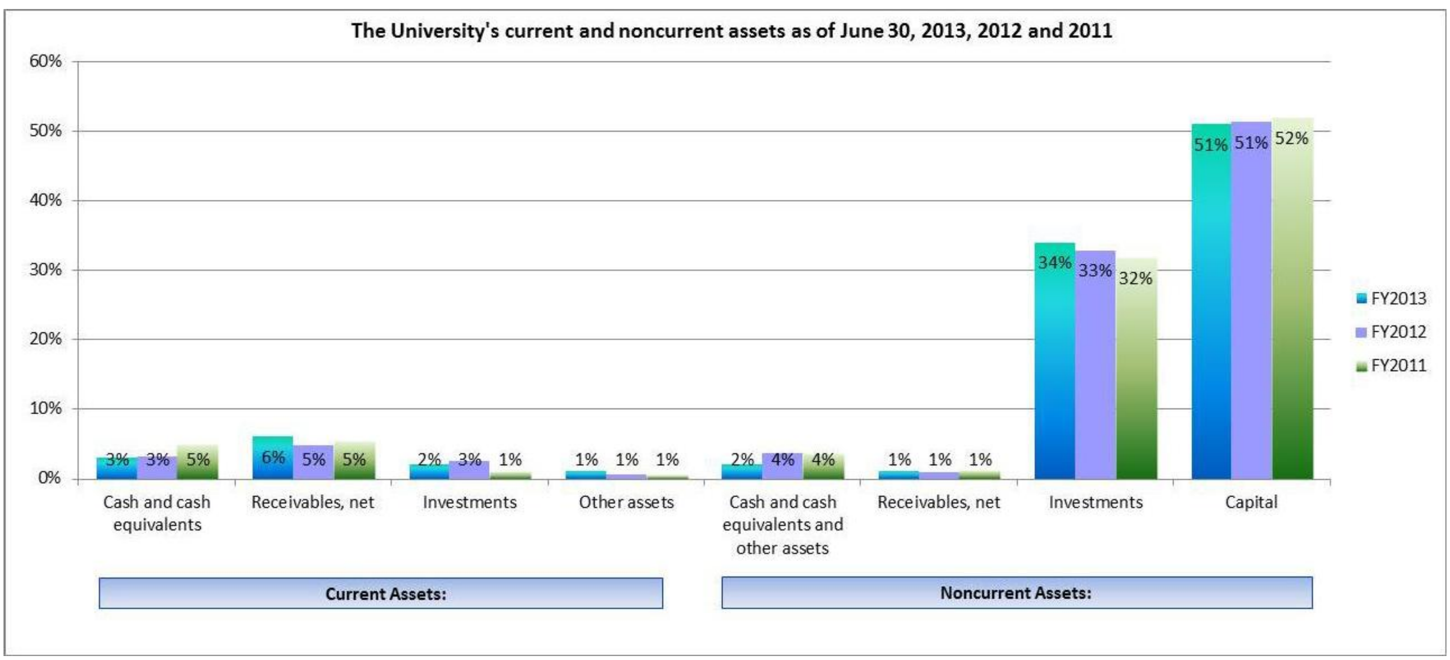
Assets

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 charts illustrate the composition of total assets:





The University's current and noncurrent assets on June 30, 2013, 2012 and 2011 *(in thousands)*							
				Increase (Decrease)			
				From 2012 to 2013		From 2011 to 2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Current assets							
Cash and cash equivalents	$ 194,006	$ 167,751	$ 243,093	$ 26,255	15.7%	$ (75,342)	(31.0%)
Receivables, net	310,878	251,814	267,514	59,064	23.5%	(15,700)	(5.9%)
Investments	89,534	133,586	52,265	(44,052)	(33.0%)	81,321	155.6%
Other assets	34,958	32,010	27,683	2,948	9.2%	4,327	15.6%
Total current assets	629,376	585,161	590,555	44,215	7.6%	(5,394)	(0.9%)
Noncurrent assets							
Capital	2,876,914	2,696,951	2,605,072	179,963	6.7%	91,879	3.5%
Other noncurrent assets							
Cash and cash equivalents and other assets	92,656	192,781	179,923	(100,125)	(51.9%)	12,858	7.1%
Receivables, net	58,236	53,487	54,373	4,749	8.9%	(886)	(1.6%)
Investments	1,889,156	1,725,670	1,595,855	163,486	9.5%	129,815	8.1%
Total other noncurrent assets	2,040,048	1,971,938	1,830,151	68,110	3.5%	141,787	7.7%
Total assets	$5,546,338	$ 5,254,050	$ 5,025,778	$ 292,288	5.6%	$ 228,272	4.5%

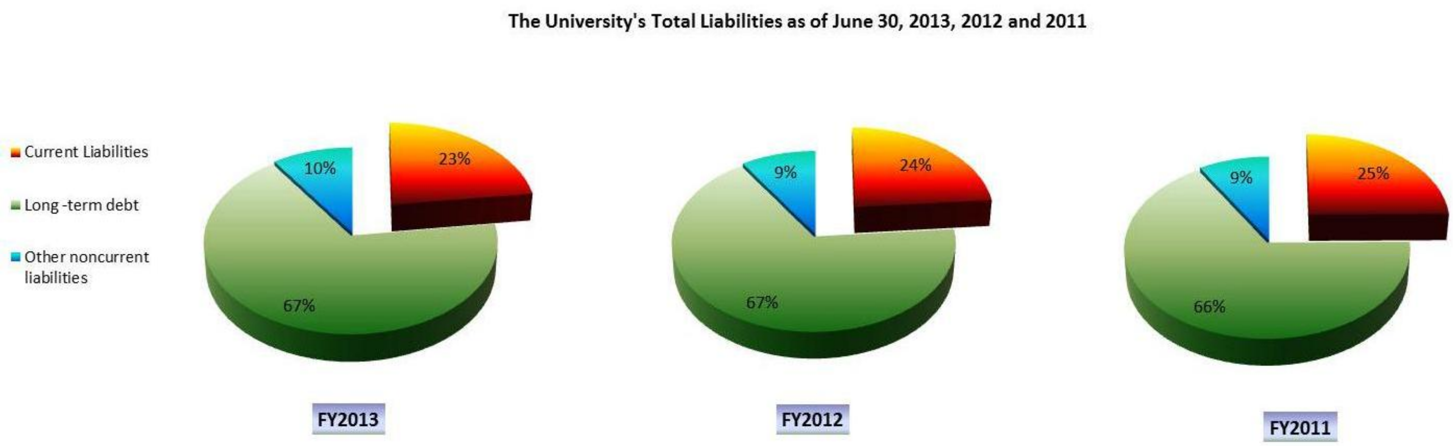
As of June 30, 2013, total assets increased $292.3 million primarily due to increases in both investments and capital, partially offset by decreases in cash and cash equivalents. Investments increased $119.4 million due to increases in the Consolidated Endowment Fund (CEF) fair market value and investment income. Consequently, increased spending on capital projects decreased cash and cash equivalents by $73.9 million. Noncurrent cash and cash equivalents consist of unspent bond proceeds of $87.0 million and $187.8 million in fiscal year 2013 and 2012, respectively. Capital assets, net of accumulated depreciation increased $180.0 million due to increased spending on construction projects, specifically the Physics and Nanotech building and the Fourth Street Housing project.

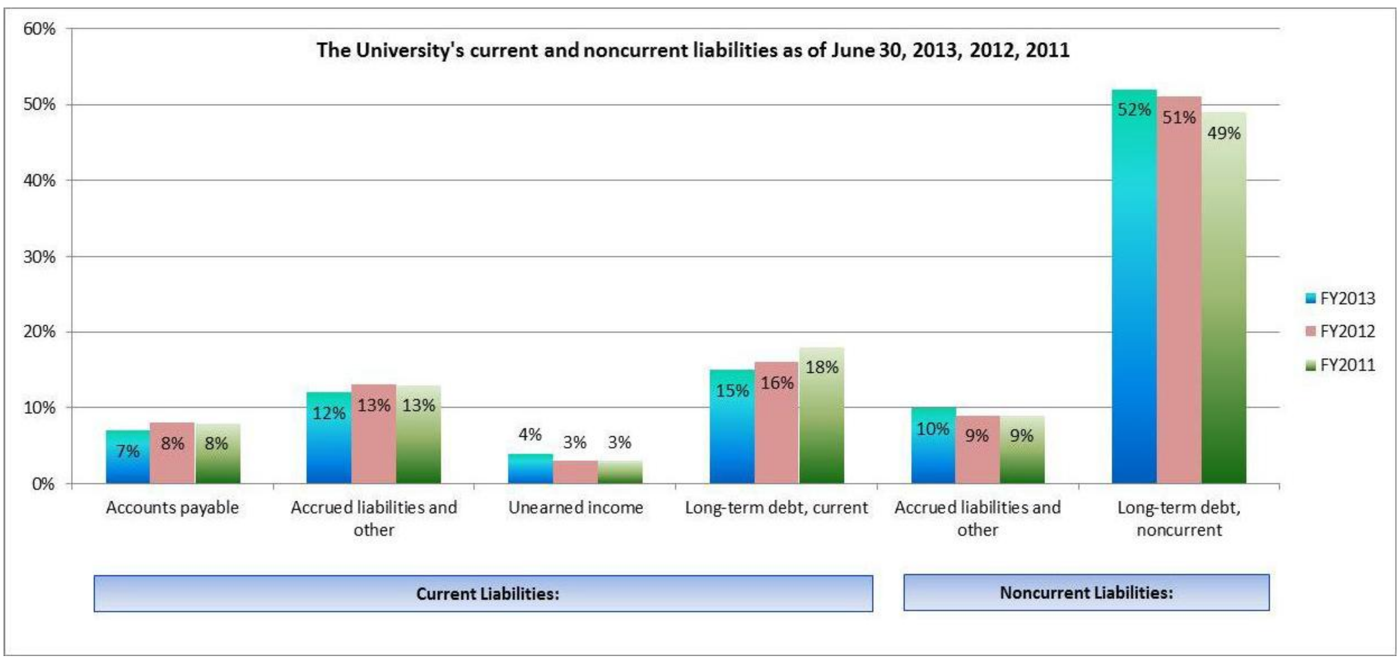
Liabilities

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

The University's noncurrent liabilities consist primarily of capital obligations, notes payable, leases and bonds payable (long-term debt). The University's long-term debt represents 67 percent of total liabilities or $1,300.7 million and $1,226.4 million as of June 30, 2013 and 2012, respectively.

The following charts illustrate the composition of total liabilities:





The University's current and noncurrent liabilities on June 30, 2013, 2012 and 2011 *(in thousands)*							
				Increase (Decrease)			
				From 2012 to 2013		From 2011 to 2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	$ 134,954	$ 144,073	$ 141,091	$ (9,119)	(6.3%)	$ 2,982	2.1%
Accrued liabilities and other	239,401	228,360	227,498	11,041	4.8%	862	0.4%
Unearned income	68,745	59,702	59,818	9,043	15.1%	(116)	(0.2%)
Long-term debt, current	285,416	293,941	305,514	(8,525)	(2.9%)	(11,573)	(3.8%)
Total current liabilities	728,516	726,076	733,921	2,440	0.3%	(7,845)	(1.1%)
Noncurrent liabilities							
Accrued liabilities and other	184,564	167,259	148,213	17,305	10.3%	19,046	12.9%
Unearned income *	162	324	497	(162)	(50.0%)	(173)	(34.8%)
Long-term debt, noncurrent	1,015,314	932,448	839,905	82,866	8.9%	92,543	11.0%
Total noncurrent liabilities	1,200,040	1,100,031	988,615	100,009	9.1%	111,416	11.3%
Total Liabilities	$1,928,556	$ 1,826,107	$ 1,722,536	$ 102,449	5.6%	$ 103,571	6.0%

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

As of June 30, 2013, total liabilities increased $102.5 million. Long-term debt increased $74.3 million or 6.0 percent due to the issuance of General Obligation Bonds Series 2013A and 2013B. Accrued liabilities increased $28.3 million due to the gradual amortization of the University's full liability related to Other Post-Employment Benefits (OPEB). The University recorded an increase to the OPEB liability of $19.4 million in fiscal year 2013 and $18.9 million in fiscal year 2012. As of June 30, 2013, the cumulative OPEB liability of $82.4 million was recorded as a current liability of $5.4 million and a noncurrent liability of $77.0 million.

Net Position

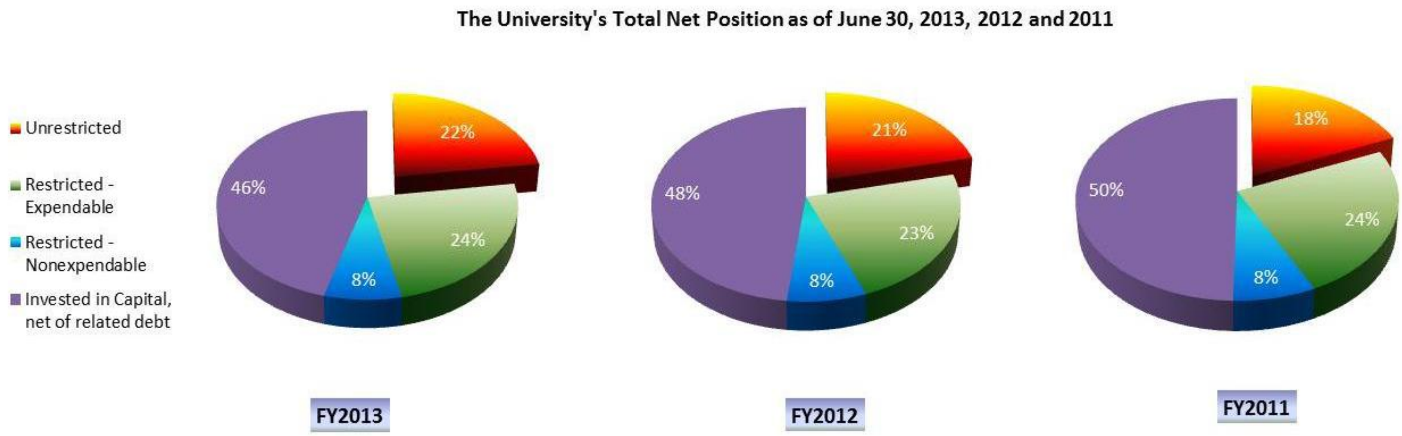
Net position represents the residual value of the University's assets after deducting liabilities and consists of the following three classifications:

- Unrestricted net position—Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital or endowment purposes. These assets are available for any lawful purpose of the institution and include resources that may be designated for specific purposes as determined by management or the Board of Regents.

- Restricted net position, which is divided into two categories—expendable and nonexpendable—Expendable assets are available for expenditure by the institution, but only in accordance with restrictions placed on their use by donors and other external entities. Nonexpendable assets are also externally restricted, but are required to be retained in perpetuity, including the University's true endowments and institutional contributions to refundable loan programs.

- Net investment in capital assets—Includes property, plant, and equipment, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these capital assets.

The following charts illustrate the composition of the University's total net position:

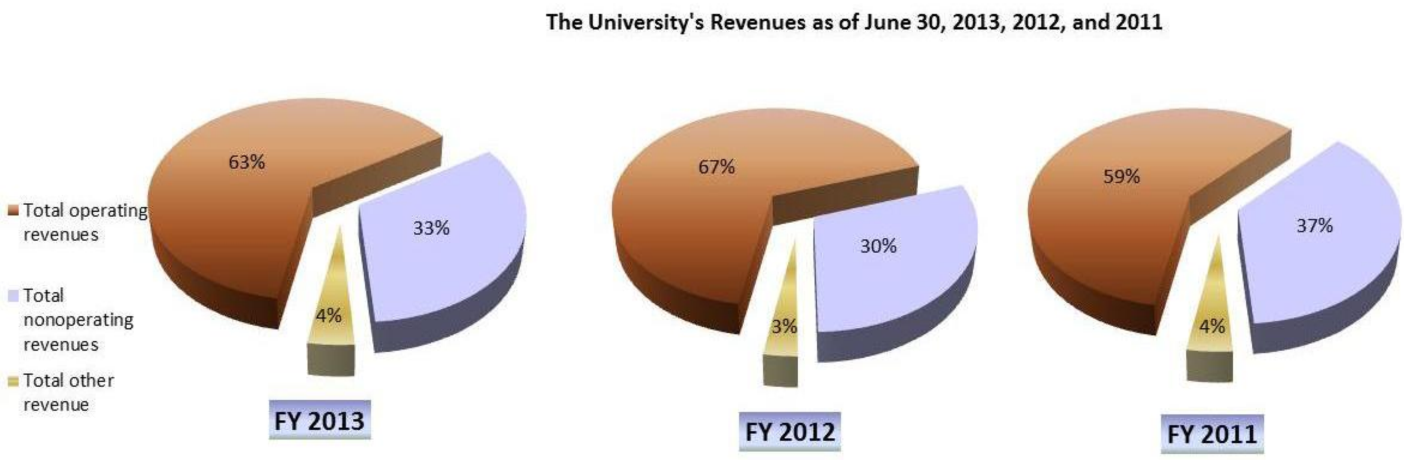


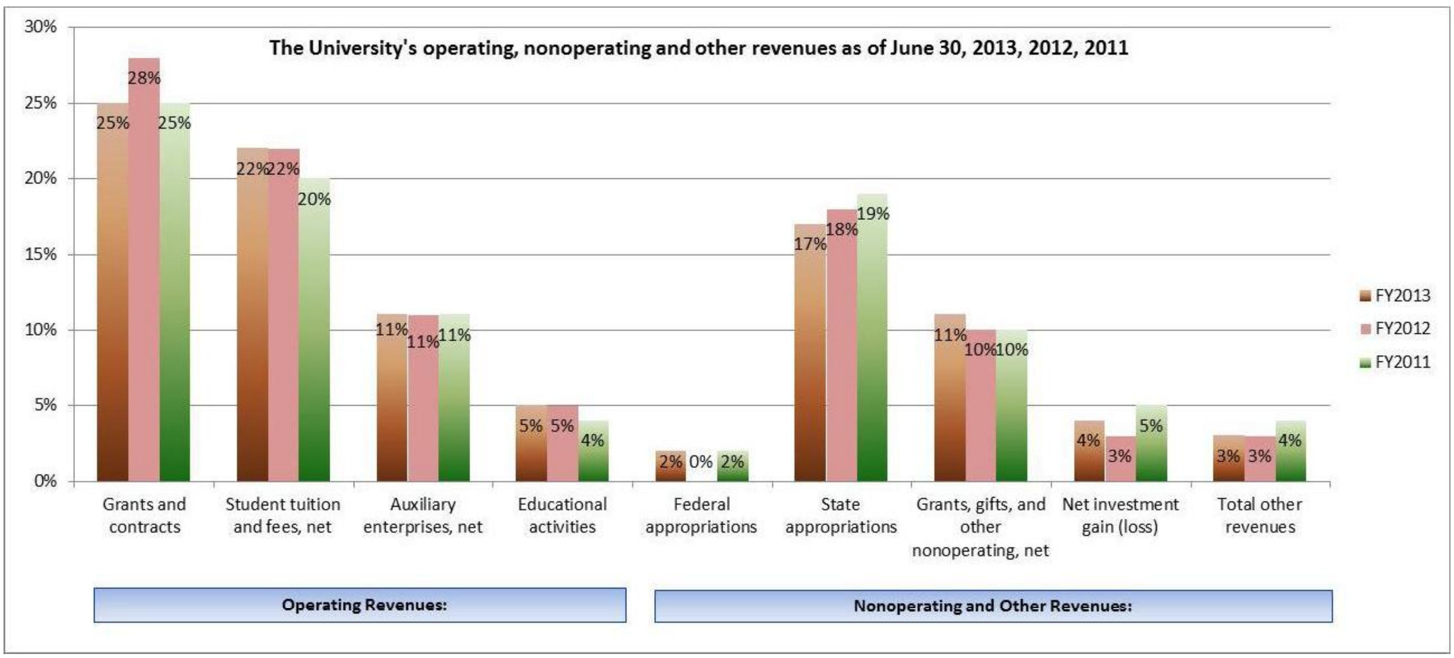
The University's total net position on June 30, 2013, 2012 and 2011 *(in thousands)*							
				Increase (Decrease)			
				From 2012 to 2013		From 2011 to 2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Unrestricted	$ 820,146	$ 727,348	$ 607,364	$ 92,798	12.8%	$ 119,984	19.8%
Restricted:							
Expendable	865,819	784,443	802,858	81,376	10.4%	(18,415)	(2.3%)
Nonexpendable	277,601	265,156	253,609	12,445	4.7%	11,547	4.6%
Net investment in capital assets	1,654,216	1,650,996	1,639,411	3,220	0.2%	11,585	0.7%
Total net position	$ 3,617,782	$ 3,427,943	$ 3,303,242	$ 189,839	5.5%	$ 124,701	3.8%

The University's restricted expendable net position increased $81.4 million in fiscal year 2013 compared to a decrease of $18.4 million in fiscal year 2012 due to changes in market values related to endowments.

Consolidated Statements of Revenues, Expenses and Changes in Net Position

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position present the institution's operating, nonoperating, and capital- and endowment-related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. Operating revenues are those generated by the University's principal ongoing operations such as tuition, sponsored research grants and contracts, and sales and services provided by the University's educational and self-supporting auxiliary units. State appropriations are reported as nonoperating revenues, as are gifts and other revenues for which the University does not give equal value in exchange for the resources received. Operating revenues were 63 percent and 67 percent of total revenues for fiscal year 2013 and 2012, respectively.


The University's Revenues as of June 30, 2013, 2012, and 2011
Total operating revenues
Total nonoperating revenues
Total other revenue
63%
33%
4%
FY 2013
67%
30%
3%
FY 2012
59%
37%
4%
FY 2011


The University's operating, nonoperating and other revenues as of June 30, 2013, 2012, 2011
30%
25%
20%
15%
10%
5%
0%
25% 28% 25%
22% 22% 20%
11% 11% 11%
5% 5% 4%
2% 0% 2%
17% 18% 19%
11% 10% 10%
4% 3% 5%
3% 3% 4%
Grants and contracts
Student tuition and fees, net
Auxiliary enterprises, net
Educational activities
Federal appropriations
State appropriations
Grants, gifts, and other nonoperating, net
Net investment gain (loss)
Total other revenues
FY2013
FY2012
FY2011
Operating Revenues:
Nonoperating and Other Revenues:

The University's operating, nonoperating and other revenue for the years ended June 30, 2013, 2012 and 2011 (in thousands)							
				Increase (Decrease)			
				From 2012 to 2013		From 2011 to 2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 836,423	$ 858,810	$ 817,045	$ (22,387)	(2.6%)	$ 41,765	5.1%
Student tuition and fees, net	720,510	696,278	634,042	24,232	3.5%	62,236	9.8%
Auxiliary enterprises, net	365,459	351,571	345,537	13,888	4.0%	6,034	1.7%
Educational activities	157,840	162,096	119,830	(4,256)	(2.6%)	42,266	35.3%
Other operating revenue *	135	162	2,606	(27)	(16.7%)	(2,444)	(93.8%)
Total operating revenues	2,080,367	2,068,917	1,919,060	11,450	0.6%	149,857	7.8%
Nonoperating revenues							
Federal appropriations	22,039	15,145	69,416	6,894	45.5%	(54,271)	(78.2%)
State appropriations	575,491	572,075	623,300	3,416	0.6%	(51,225)	(8.2%)
Grants, gifts, and other nonoperating, net	357,741	322,010	322,116	35,731	11.1%	(106)	(0.0%)
Net investment gain (loss)	122,797	36,895	180,865	85,902	232.8%	(143,970)	(79.6%)
Total nonoperating revenues	1,078,068	946,125	1,195,697	131,943	13.9%	(249,572)	(20.9%)
Total other revenues	139,655	103,353	122,732	36,302	35.1%	(19,379)	(15.8%)
Total revenues (noncapital)	$ 3,298,090	$ 3,118,395	$3,237,489	$ 179,695	5.8%	$ (119,094)	(3.7%)

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

Total revenues increased in fiscal year 2013 by $179.7 million due to increases in net investment gain due to market increases. Grants, gifts and other nonoperating revenue increased as a result of increases in the Prepaid Medical Assistant Plan / Medical Education and Research Cost (PMAP/MERC) funding. Operating revenues increased $11.5 million or .6% mainly due to increases in student tuition and fees and auxiliary enterprises. Revenues from sales and services of educational activities decreased $4.3 million due to timing of normal business activity.

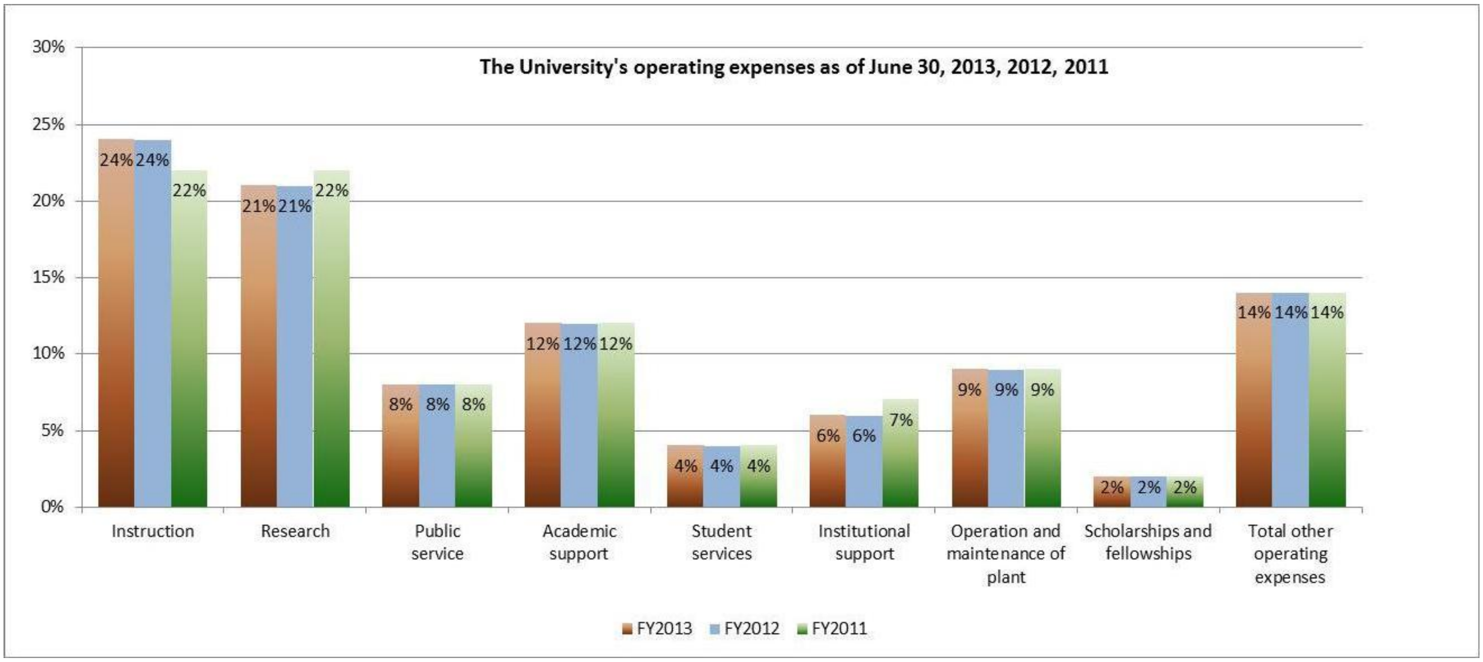
State appropriations remained relatively flat compared to fiscal year 2012 increasing to $575.5 million in fiscal year 2013 from $572.1 million in fiscal year 2012.

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

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of $159.2 million, $143.0 million, and $147.6 million, and grants and gifts for capital purposes of $28.8 million, $31.3 million, and $44.8 million in fiscal years 2013, 2012, and 2011, respectively.

For the year ended June 30, 2013, other revenues, which consist of capital appropriations, and capital endowments gifts and grants increased $36.3 million or 35.1% in fiscal year 2013 compared to a decrease of $19.4 million or 15.8% in fiscal year 2012.

Total Operating Expenses



The University's total operating expenses by functional category for the years ended June 30, 2013, 2012 and 2011
(in thousands)

				Increase (Decrease)			
				From 2012 to 2013		From 2011 to 2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Education and general							
Instruction	$737,596	$696,217	$668,042	$41,379	5.9%	$28,175	4.2%
Research	656,551	633,176	625,655	23,375	3.7%	7,521	1.2%
Public service	249,257	245,511	225,701	3,746	1.5%	19,810	8.8%
Academic support	367,265	360,626	359,816	6,639	1.8%	810	0.2%
Student services	110,230	106,152	104,863	4,078	3.8%	1,289	1.2%
Institutional support	197,319	189,040	193,997	8,279	4.4%	(4,957)	(2.6%)
Operation and maintenance of plant	266,994	254,553	264,888	12,441	4.9%	(10,335)	(3.9%)
Scholarships and fellowships	50,435	52,014	52,310	(1,579)	(3.0%)	(296)	(0.6%)
Total Education and General	2,635,647	2,537,289	2,495,272	98,358	3.9%	42,017	1.7%
Other operating expenses							
Depreciation	193,139	183,875	163,689	9,264	5.0%	20,186	12.3%
Auxiliary enterprises	235,411	227,397	226,996	8,014	3.5%	401	0.2%
Other operating expenses, net	19	(195)	67	214	109.7%	(262)	(391.0%)
Total other operating expenses	428,569	411,077	390,752	17,492	4.3%	20,325	5.2%
Total operating expenses	$3,064,216	$2,948,366	$2,886,024	115,850	3.9%	62,342	2.2%

Total operating expenses increased $115.9 million or 3.9 percent in fiscal year 2013 compared to fiscal year 2012. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at $2.0 billion or 63.8 percent, $1.9 billion or 64.5 percent and $1.9 billion or 65.3 percent of operating expenses in fiscal years 2013, 2012 and 2011, respectively. Compensation related expenditures increased $53.4 million or 2.8 percent in fiscal year 2013 and $17.0 million or 0.9 percent in fiscal year 2012. Instruction increased percentage-wise more than the other categories of operating expenses due to increased funding for the PMAP/MERC program.

Consolidated Statements of Cash Flows

The University's cash flows for the years ended June 30, 2013, 2012 and 2011
(in thousands)

				Increase (Decrease)			
				From 2012 to 2013		From 2011 to 2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	$ (781,600)	$ (659,788)	$ (847,949)	(121,812)	(18.5%)	$ (188,161)	(22.2%)
Noncapital financing activities	925,488	913,558	1,027,484	11,930	1.3%	(113,926)	(11.1%)
Capital and related financing activities	(223,374)	(140,030)	45,972	(83,344)	(59.5%)	(186,002)	(404.6%)
Investing activities	4,977	(177,252)	(97,055)	182,229	102.8%	80,197	82.6%
Net increase (decrease) in cash	(74,509)	(63,512)	128,452	(10,997)	(17.3%)	(191,964)	(149.4%)
Cash, beginning of year	355,520	419,032	290,580	(63,512)	(15.2%)	128,452	44.2%
Cash, end of year	$ 281,011	$ 355,520	$ 419,032	$ (74,509)	(21.0%)	$ (63,512)	(15.2%)

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

As illustrated in above table, the University's cash and cash equivalents decreased $74.5 million due to the use of funds by operating activities, and capital and related financing activities, partially offset by cash inflows from investing and noncapital financing activities. The cash used by capital and financing activities decreased $83.3 million as a result of reduced proceeds from new bond issuance. During fiscal year 2013, the University issued $96.5 million in new bond issuances compared to $138.2 million in fiscal year 2012. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling $575.0 million and $546.1 million, grants totaling $181.7 million and $174.7 million and gifts totaling $150.8 million and $142.2 million in 2013 and 2012, respectively. Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year funded a portion of the University's equipment needs and ongoing renovation and construction initiatives.

Investing Activities

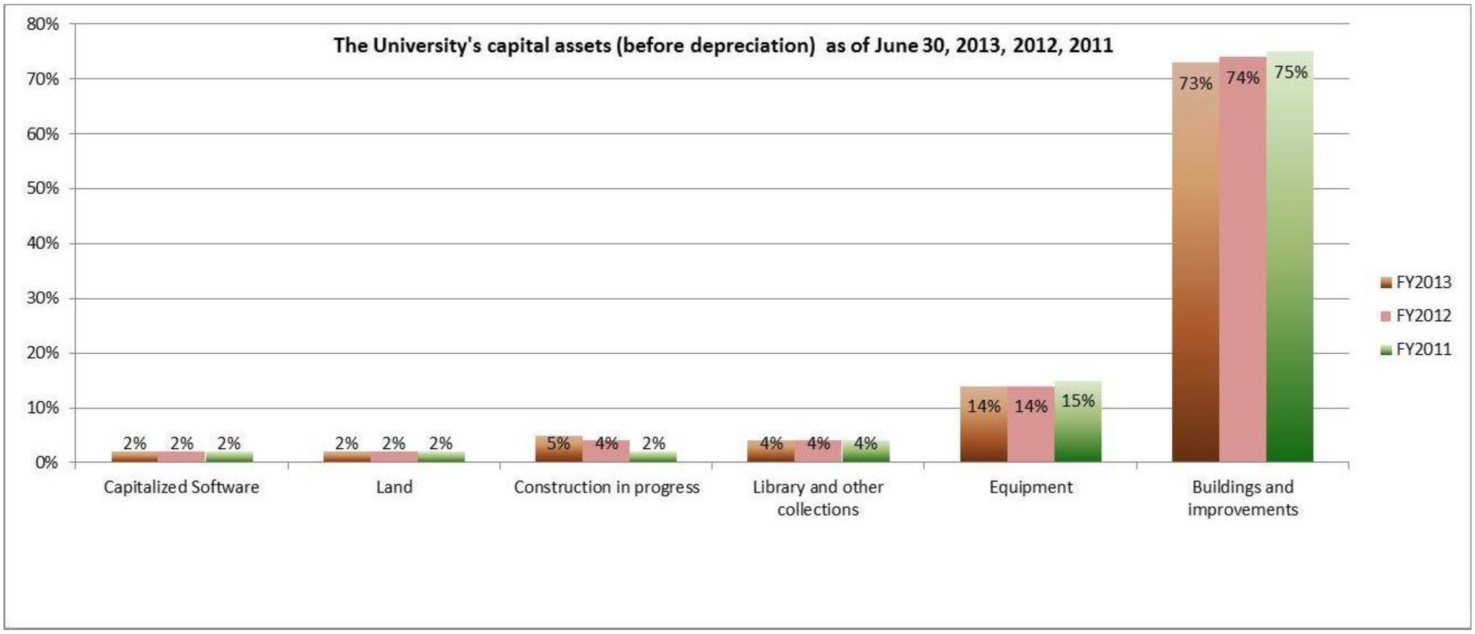
The University's endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are benchmarked over three-to five-year periods.

Long-term endowment and other investments included increases from net unrealized gains on the endowment and other investments of $13.5 million in fiscal year 2013 compared to a decrease of $39.2 million in fiscal year 2012. In addition, decreases of $45.2 million and $47.0 million in 2013 and 2012, 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 2013 and 2012.

Capital and Debt Activities

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



The University's capital asset categories (before depreciation) for the years ended June 30, 2013, 2012 and 2011
(in thousands)

				Increase (Decrease)			
				From 2012 to 2013		From 2011 to 2012	
	2013	2012	2011	Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	$3,966,992	$ 3,760,552	$ 3,655,566	$ 206,440	5.5%	$ 104,986	2.9%
Equipment	741,166	721,675	718,422	19,491	2.7%	3,253	0.5%
Library and other collections	199,366	191,117	174,965	8,249	4.3%	16,152	9.2%
Construction in progress	278,103	186,973	100,413	91,130	48.7%	86,560	86.2%
Land	91,089	90,189	87,416	900	1.0%	2,773	3.2%
Software and other intangibles	122,991	116,422	106,879	6,569	5.6%	9,543	8.9%
Total capital assets (gross)	$5,399,707	$ 5,066,928	$ 4,843,661	$ 332,779	6.6%	$ 223,267	4.6%

Capital additions totaled $375.3 million, $277.0 million, and $242.3 million in fiscal year 2013, 2012 and 2011, respectively. Fiscal year 2013 spending included the Physics and Nanotech Building, the 17th Avenue Residence Hall, Northrop Interior Renovation, and the University Recreation Center Expansion. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Fiscal year 2013 activity included the issuance of General Obligation Taxable Bonds, Series 2013B and General Obligation Bonds, Series 2013A to fund various capital projects including the renovation of Northrop Memorial Auditorium, the construction of a student residence hall and dining facility and the construction of the Physics and Nanotechnology Building.

Capital leases of $45.3 million and $1.9 million were issued in fiscal year 2013 and 2012, respectively. Refer to Note 5 for additional information.

Factors Affecting Future Economic Conditions

As President Kaler entered his second year of his presidency, he also faced the development of his first State of Minnesota 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 requested new operating budget support during 2013 legislative session.

The framework for operating budget support was established early in fiscal year 2012 and the goals and priorities were 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 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 called for an increase of $91,512,000 compared to the prior biennium. At the conclusion of the 2013 legislative session, the University of Minnesota received an increase of $77,210,000 or approximately 85% of its requested funds. The University of Minnesota will receive $576,799,000 in fiscal year 2014 and $591,099,000 in fiscal year 2015 compared to $545,344,000 in fiscal year 2013.

Two key elements funded by the State of Minnesota include:

1. renewing the University's partnership with the State through an approval of $42,600,000 over the next two fiscal years with a commitment on the part of the University to hold Minnesota undergraduate tuition increase to zero percent 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 through a commitment of $35,650,000 over the next two years.

The University's MNDRIVE program was approved and funding was appropriated for 4 strategic research opportunities designed to advance Minnesota's economy:

1. leverage Minnesota's strengths and comparative advantage
2. improve Minnesotans' health and quality of life
3. advance the capacity and competitiveness of Minnesota industries and
4. 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.

The State of Minnesota's increased financial support for the University of Minnesota comes on the heels of significant reductions that began in 2009. The renewed investment in higher education in Minnesota brings with it significant benefits to Minnesota residents undergraduate students through not only the operating funds to hold their tuition rate increase to zero percent over the next two academic years but also, in the case of students who are eligible for the state grants program, real increased financial aid to offset the cost to attend the University of Minnesota.

President Kaler will be submitting a capital request to the State of Minnesota during the upcoming 2014 legislative session. The request totals $299,000,000 of which the University of Minnesota will be responsible for $66,333,000. The request is focused on 6 distinct elements with the highest priority request and largest single component entailing a $100,000,000 request to provide critical funds necessary to maximize and extend the life of the University's existing inventory of buildings and facilities. Examples include projects involving health and safety, utility infrastructure, building systems, and energy efficiency. The remaining 5 elements of the request involve funds to renovate Tate Laboratory building used by the School of Physics and Astronomy and the School of Earth Sciences; a new microbial sciences research building to replace obsolete facilities; a new campus wellness center on the University's Crookston campus; new funds to renovate several key research laboratories including an existing Bee Research Facility; the University's Aquatic Invasive Research Species Center; and new funds to support the construction of a new chemical sciences and advanced material building on the University's Duluth campus.

University of Minnesota
Consolidated Statements of Net Position (Excluding Component Units)
June 30, 2013 and 2012 (in thousands)

			2013	2012
Assets				
Current assets				
	Cash and cash equivalents		$ 194,006	$ 167,751
	Short-term investments		89,534	133,586
	Receivables, net		297,021	242,949
	Inventories		22,554	23,325
	Student loans receivable, net		13,857	8,865
	Prepaid expenses		12,028	8,464
	Other assets		376	221
		Total current assets	629,376	585,161
Noncurrent assets				
	Restricted cash and cash equivalents		87,005	187,769
	Investments		1,889,156	1,725,670
	Receivables, net		4,148	548
	Student loan receivables, net		54,088	52,939
	Prepaid expenses		5,636	4,999
	Other assets		15	13
	Capital assets, net		2,876,914	2,696,951
		Total noncurrent assets	4,916,962	4,668,889
Total assets			5,546,338	5,254,050
Deferred Outflows of Resources				
		Total deferred outflows of resources	-	-
Total assets and deferred outflows of resources			5,546,338	5,254,050
Liabilities				
Current liabilities				
	Accounts payable		134,954	144,073
	Accrued liabilities and other		239,401	228,360
	Unearned income		68,745	59,702
	Long-term debt-current portion		285,416	293,941
		Total current liabilities	728,516	726,076
Noncurrent liabilities				
	Accrued liabilities and other		184,564	167,259
	Unearned income		162	324
	Long-term debt		1,015,314	932,448
		Total noncurrent liabilities	1,200,040	1,100,031
Total liabilities			1,928,556	1,826,107
Deferred Inflows of Resources				
		Total deferred inflows of resources	-	-
Total liabilities and deferred inflows of resources			1,928,556	1,826,107
Net Position				
	Unrestricted		820,146	727,348
	Restricted	Expendable	865,819	784,443
		Nonexpendable	277,601	265,156
	Net investment in capital assets		1,654,216	1,650,996
Total net position			$ 3,617,782	$ 3,427,943

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2013 and 2012 (in thousands)

	University of Minnesota Foundation		University of Minnesota Physicians	
	2013	2012	2013	2012
Assets				
Cash and cash equivalents	$25,943	$14,665	$47,539	$28,561
Investments, substantially at fair market value	2,003,970	1,499,991	17,626	27,062
Pledges receivable, net	127,465	88,877		
Accounts and other receivables	58,697	25,604	82,336	80,795
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	97,854	54,030		
Gift annuities	40,321	33,784		
Property and equipment, net	57,175	28,471	13,825	14,253
Prepaids and other assets	873		4,202	3,163
Total assets	2,412,298	1,745,422	165,528	153,834
Liabilities				
Accounts payable and accrued liabilities	25,677	10,882	68,887	69,458
Deferred revenue and gains			13,556	13,556
Gift annuities payable	22,179	19,742		
Unitrusts, pooled income, and annuity trusts payable	11,330	8,235		
Investments held for custody of others	221,899	201,300		
Bonds and capital lease payable	51,910			
Total liabilities	332,995	240,159	82,443	83,014
Minority Interest in University Gateway Corporation				
Total minority interest in University Gateway Corporation	7,056	-	-	-
Net Assets				
Unrestricted	47,975	55,799	83,085	70,820
Temporarily restricted	1,100,909	836,395		
Permanently restricted	923,363	613,069		
Total net assets	2,072,247	1,505,263	83,085	70,820
Total liabilities, minority interest, and net assets	$2,412,298	$1,745,422	$165,528	$153,834

The University of Minnesota Foundation (UMF), Minnesota Medical Foundation and University Gateway Corporation are included in UMF's balances for FY 2013 as a result of the merger.

See Footnote #1 for more information related to the merger and Footnote #14 for other component unit disclosure information.

University of Minnesota
Component Units - Statements of Financial Position
June 30, 2013 and 2012 (in thousands)

	Minnesota Medical Foundation	University Gateway Corporation
	2012	2012
Assets		
Cash and cash equivalents	$17	$1,129
Investments, substantially at fair market value	288,626	
Investments held for unitrusts, annuity trusts, and gift annuities	9,670	
Investments loaned to broker	3,441	
Investments collateral	1,877	
Pledges receivable, net	101,132	
Accounts and other receivables	8,092	347
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	37,654	
Interest in the net assets of related parties		23,782
Property and equipment, net	700	17,182
Prepaids and other assets	139	31,876
Total assets	451,348	74,316
Liabilities		
Accounts payable and accrued liabilities	2,622	4,403
Deferred revenue and gains	263	
Split-interest agreement liabilities	6,013	
Investments held for custody of others	1,263	
Payable under investment loan agreement	3,510	
Bonds and capital lease payable		52,558
Total liabilities	13,671	56,961
Net Assets		
Unrestricted	18,766	17,354
Temporarily restricted	213,508	1
Permanently restricted	205,403	
Total net assets	437,677	17,355
Total liabilities, minority interest, and net assets	$451,348	$74,316

The University of Minnesota Foundation (UMF), Minnesota Medical Foundation and University Gateway Corporation are included in UMF's balances for FY 2013 as a result of the merger.

See Footnote #1 for more information related to the merger and Footnote #14 for other component unit disclosure information.

University of Minnesota
Consolidated Statements of Revenues, Expenses and Changes in Net Position
(Excluding Component Units)
Years ended June 30, 2013 and 2012 (in thousands)

			2013	2012
Revenues				
Operating revenues	Student tuition and fees, net of scholarship allowances of $239,066 in 2013; $232,301 in 2012		$ 720,510	$ 696,278
	Federal grants and contracts		497,444	510,687
	State and other government grants		60,775	59,631
	Nongovernmental grants and contracts		278,204	288,492
	Student loan interest income		1,867	1,866
	Sales and services of educational activities, net of scholarship allowances of $36 in 2013; $41 in 2012		155,973	160,230
	Auxiliary enterprises, net of scholarship allowances of $7,792 in 2013; $8,839 in 2012		365,459	351,571
	Other operating revenues		135	162
Total operating revenues			2,080,367	2,068,917
Expenses				
Operating expenses	Education and general			
		Instruction	737,596	696,217
		Research	656,551	633,176
		Public service	249,257	245,511
		Academic support	367,265	360,626
		Student services	110,230	106,152
		Institutional support	197,319	189,040
		Operation and maintenance of plant	266,994	254,553
		Scholarships and fellowships	50,435	52,014
		Depreciation	193,139	183,875
	Auxiliary enterprises		235,411	227,397
	Other operating expenses, net		19	(195)
Total operating expenses			3,064,216	2,948,366
Operating Loss			(983,849)	(879,449)
Nonoperating Revenues (Expenses)				
Federal appropriations			22,039	15,145
State appropriations			575,491	572,075
Grants			195,141	176,656
Gifts			159,167	143,000
Investment income, net			122,797	36,895
Interest on capital-asset related debt			(44,035)	(45,328)
Other nonoperating revenues (expenses), net			3,433	2,354
Net nonoperating revenues			1,034,033	900,797
Income Before Other Revenues			50,184	21,348
Capital appropriations			98,396	60,570
Capital grants and gifts			28,801	31,349
Additions to permanent endowments			12,458	11,434
Total other revenues			139,655	103,353
Increase In Net Position			189,839	124,701
Net position at beginning of year			3,427,943	3,303,242
Net position at end of year			$ 3,617,782	$ 3,427,943

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities

Year ended June 30, 2013

(with summarized information for the year ended June 30, 2012) (in thousands)

	University of Minnesota Foundation				
	Unrestricted	Temporarily restricted	Permanently restricted	Total 2013	Total 2012
Revenues					
Contributions	$1,613	$61,900	$56,105	$119,618	$134,968
Investment income, net	2,557	10,085	54	12,696	8,968
Net realized and unrealized gains (losses) on investments	10,690	127,219	1,600	139,509	15,154
Change in value of trusts	327	3,117	6,427	9,871	206
Support services revenue	2,327			2,327	2,327
UMF - Dinnaken Housing, LLC rental revenue	5,022			5,022	5,141
University Gateway Corporation revenue	1,938			1,938	
Inherent contribution of Minnesota Medical Foundation assets	(8,815)	227,497	246,108	464,790	
Other revenue	1,018			1,018	940
Net assets released from restriction	165,304	(165,304)			
Total revenues	181,981	264,514	310,294	756,789	167,704
Expenses					
Program services					
Distributions for educational purposes	140,425			140,425	115,024
Support services					
Management and general	9,311			9,311	7,962
Fund-raising	21,072			21,072	15,492
UMF - Dinnaken Housing, LLC	4,223			4,223	4,705
University Gateway Corporation	1,200			1,200	
Total expenses	176,231	-	-	176,231	143,183
Other Changes in Net Assets					
Increase in minority interest of University Gateway Corporation	(866)			(866)	
Consolidation of University Gateway Corporation	(12,708)			(12,708)	
Total other changes in net assets	(13,574)	-	-	(13,574)	-
Increase (decrease) in net assets	(7,824)	264,514	310,294	566,984	24,521
Net assets at beginning of year	55,799	836,395	613,069	1,505,263	1,480,742
Net assets at end of year	$47,975	$1,100,909	$923,363	$2,072,247	$1,505,263

The University of Minnesota Foundation (UMF), Minnesota Medical Foundation and University Gateway Corporation are included in UMF's balances for FY 2013 as a result of the merger.

See Footnote #1 for more information related to the merger and Footnote #14 for other component unit disclosure information.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2013
(with summarized information for the year ended June 30, 2012) (in thousands)

	University of Minnesota Physicians	
	Total (unrestricted)	
	2013	2012
Revenues		
Net patient service revenue	$187,242	$177,597
Investment income, net	1,188	1,371
Net realized and unrealized gains (losses) on investments	(120)	(300)
Other revenue	261,909	231,396
Total revenues	450,219	410,064
Expenses		
Program services		
Health care services	397,378	364,791
Support services		
Management and general	40,576	39,996
Total expenses	437,954	404,787
Increase in net assets	12,265	5,277
Net assets at beginning of year	70,820	65,543
Net assets at end of year	$83,085	$70,820

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012 (summarized information in thousands)

	Minnesota Medical Foundation
	Total 2012
Revenues	
Contributions	$60,190
Investment income (loss), net	(11,814)
Judgment revenue	7,316
Change in value of split-interest agreements	8,402
Service charges	65
Receipts from affiliated parties	4,973
Total revenues	69,132
Expenses	
Program services	
Research and education grants	50,006
Building and equipment grants	7,623
Communications	583
Student aid and scholarships	2,239
Honor and award grants	501
Alumni and sponsored events	1,117
Support services	
Management and general	3,917
Fund-raising	8,074
Total expenses	74,060
Decrease in net assets	(4,928)
Net assets at beginning of year	442,605
Net assets at end of year	$437,677

The University of Minnesota Foundation (UMF), Minnesota Medical Foundation and University Gateway Corporation are included in UMF's balances for FY 2013 as a result of the merger.

See Footnote #1 for more information related to the merger and Footnote #14 for other component unit disclosure information.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012 (summarized information in thousands)

	University Gateway Corporation
	Total 2012
Revenues	
Direct financing lease revenue	$2,841
Change in derivative financial instruments	(1,643)
Change in the interest in net assets of related parties	177
Other revenue	3,167
Total revenues	4,542
Expenses	
Program services	5,666
Support services	
Management and general	56
Payment to affiliated parties	441
Total expenses	6,163
Decrease in net assets	(1,621)
Net assets at beginning of year	18,976
Net assets at end of year	$17,355

The University of Minnesota Foundation (UMF), Minnesota Medical Foundation and University Gateway Corporation are included in UMF's balances for FY 2013 as a result of the merger.
See Footnote #1 for more information related to the merger and Footnote #14 for other component unit disclosure information.

University of Minnesota

Consolidated Statements of Cash Flows (Excluding Component Units)

Years Ended June 30, 2013 and 2012 (in thousands)

	2013	2012
Cash Flows From Operating Activities		
Grants and contracts (federal, state, nongovernmental, other)	$ 828,937	$ 881,898
Student tuition and fees	719,758	698,277
Auxiliary enterprises	362,450	354,762
Sales and services of educational activities	151,848	161,017
Collection of loans to students	6,828	11,513
Other operating revenues	141	896
Payments to employees for services	(1,464,867)	(1,414,961)
Payments to suppliers for goods and services	(862,842)	(831,138)
Payments for fringe benefits	(468,608)	(469,537)
Payments for scholarships and fellowships	(43,069)	(42,545)
Loans issued to students	(12,176)	(9,970)
Net cash used by operating activities	(781,600)	(659,788)
Cash Flows From Noncapital Financing Activities		
State appropriations	575,044	546,119
Grants for other than capital purposes	181,695	174,669
Gifts for other than capital purposes	150,787	142,176
Federal appropriations	14,963	31,356
Private gifts for endowment purposes	12,458	11,429
Other nonoperating revenues, net	6,022	5,849
Direct lending receipts	322,178	336,400
Direct lending disbursements	(321,565)	(337,250)
Agency transactions	(16,094)	2,810
Net cash provided by noncapital financing activities	925,488	913,558
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	99,989	58,606
Proceeds from capital debt	96,483	138,178
Capital grants and gifts	18,347	31,348
Proceeds from sale of capital assets	1,149	(814)
Purchases of capital assets	(324,447)	(261,552)
Principal paid on capital debt	(63,723)	(55,715)
Interest paid on capital debt	(51,172)	(50,081)
Net cash used by capital and related financing activities	(223,374)	(140,030)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	1,059,348	612,947
Investment income, net	124,239	84,158
Purchase of investments	(1,178,610)	(874,357)
Net cash provided (used) by investing activities	4,977	(177,252)
Net Decrease in Cash and Cash Equivalents	(74,509)	(63,512)
Cash and Cash Equivalents at Beginning of Year	355,520	419,032
Cash and Cash Equivalents at End of Year	$ 281,011	$ 355,520

See notes to consolidated financial statements.

University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)
Years Ended June 30, 2013 and 2012 (in thousands)

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities	2013	2012
Operating loss	$ (983,849)	$ (879,449)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	193,139	183,875
Changes in assets and liabilities		
Receivables, net	(22,477)	25,053
Inventories	851	547
Prepaid and other items	(4,008)	(5,848)
Accounts payable	(7,485)	(13,064)
Accrued liabilities	34,487	31,076
Unearned income	7,742	(1,978)
Net cash used by operating activities	$ (781,600)	$ (659,788)

Noncash Investing, Capital, and Financing Actvities		
Capital assets acquired with capital lease	$ 45,306	$ 1,896
Capital assets on account	42,345	43,323
Contribution of capital assets	3,747	3,344
Amortization of bond discount/premium	3,725	3,390
Unrealized gains (losses) on investments	1,507	(40,153)

Cash and Cash Equivalents at End of Year		
Cash and cash equivalents	$ 194,006	$ 167,751
Restricted cash and cash equivalents	87,005	187,769
Total cash and cash equivalents at end of year	$ 281,011	$ 355,520

See notes to consolidated financial statements.

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

Organization

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

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

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

Reporting Entity

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

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

RUMINCO, Ltd.

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

UMore Development Limited Liability Company (LLC)

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

Discretely Presented Component Units—The University's financial statements include the financial data of several tax-exempt component units. They are reported in separate columns on separate pages. GASB 61 requires discrete presentation of component units when either the resources held by these entities can only be used by, or for the benefit of, the University or its component units; or the component units are closely related to, or financially integrated with the University.

In conjunction with the implementation of GASB 61, effective for the fiscal year ended June 30, 2013, the University refined its significance dollar threshold, which assisted in identifying the discretely presented component units the University was required to report in accordance with GASB 61. As a result, the University is no longer required to discretely report the following component units in its annual report: Minnesota Landscape Arboretum, Minnesota 4-H Foundation, and University of Minnesota Alumni Association.

University of Minnesota Foundation

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

During fiscal year 2013, the Board of Trustees for UMF and the Board of Trustees for the Minnesota Medical Foundation (MMF) agreed to combine their operations to better fulfill their respective missions, to enhance their ability to serve the University and their donors, and to create one voice for private giving at the University. The effective date of the Legal Plan of Merger was February 1, 2013. Under this Legal Plan of Merger, the MMF was merged with and into UMF, and MMF's separate existence ceased. Prior to the merger with MMF, UMF had a 50% voting interest in University Gateway Corporation (Gateway). Under U.S. GAAP, consolidation was not required. Subsequent to the merger, UMF has a 67% voting interest which thus requires consolidation of Gateway's assets, liabilities and income and expense activity commencing with the effective merger date of February 1, 2013.

During fiscal years 2013 and 2012, the UMF distributed $181,005 and $130,558, 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

Effective February 1, 2013, the Minnesota Medical Foundation (MMF) was acquired by UMF. As noted under University of Minnesota Foundation (UMF), effective February 1, 2013, under the Legal Plan of Merger, Minnesota Medical Foundation's (MMF) separate existence ceased. Prior to this merger, MMF was 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 consisted of not fewer than 24 elected members, one third of whom must be physicians. The majority of resources that the MMF held and invested, including income from its investments, was restricted by donors to the activities of the University.

During fiscal year 2012, the MMF distributed $51,489 to the University. Complete financial statements for the former Minnesota Medical Foundation can be obtained through UMF.

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 and the University of Minnesota Alumni Association. Gateway's six-member Board of Directors consists of four members from the University of Minnesota Foundation and two members from the University of Minnesota Alumni Association.

As noted under University of Minnesota Foundation (UMF), subsequent to the merger of UMF and MMF, UMF has a 67% voting interest which thus requires consolidation of Gateway's assets, liabilities and income and expense activity commencing with the effective merger date of February 1, 2013.

During fiscal year 2012, Gateway distributed $689 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 (UMP) is a legally separate, tax-exempt clinical practice organization for the faculty of the University of Minnesota School of Medicine. The Board of UMP consists of at least 25 and not more than 29 voting directors, ex-officio voting directors, and ex-officio non-voting directors. Included in the composition of UMP's board of directors is the dean of the University of Minnesota Medical School, faculty, and department heads of the University Medical School totaling 19 members. Based on the University appointing a voting majority of board members, the University has the ability to impose its will on UMP, as management and direction of the business and affairs of UMP is vested in the board. As a result, this contributes to UMP being classified as a discretely presented component unit.

During fiscal years 2013 and 2012, UMP distributed $83,122 and $79,061, respectively, to the University. Complete financial statements for University of Minnesota Physicians can be obtained from the Chief Financial Officer, 720 Washington Ave S.E., Suite 200, Minneapolis, MN 55414.

Component Units

The University's discretely presented component units are nonprofit organizations, organized under IRS Code Section 501(c)(3). These units report under Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. The component units' financial data has been aggregated into like categories for presentation purposes and is shown in these statements in thousands, 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 from date of purchase) 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 straightline method, based on the estimated useful lives of the assets. Interest that qualified for interest capitalization is $2,987 and $1,506 for fiscal years 2013 and 2012, respectively.

The following schedule summarizes the useful lives and capitalization thresholds:

Asset category	Useful life (in years)	Capitalization threshold
Capitalized software (intangible asset)	Shorter of legal life or 5 years	$500,000
Licenses (intangible asset)	License term	500,000
Non income-producing intellectual property (intangible asset)	Legal life	500,000
All other intangible assets	5	500,000
Buildings and improvements	10-40	50,000
Infrastructure	10-40	50,000
Leasehold improvements	Lease term	50,000
Equipment	3-20	2,500
Land	Indefinite	-
Museums and collections	Indefinite	-
Library and reference books	10	-
Permanent right-of-way easements (intangible asset)	Indefinite	-

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 Position—Net position is reported in three components based upon the type of external restriction imposed.

- **Unrestricted**: Net position that has no external restriction imposed. Unrestricted net position may be designated for specific purposes by the Board of Regents or subject to contractual limitations, but generally are designated to fund the academic, research, and public service mission of the University.

- **Restricted**:

  Expendable—Net position that is restricted for specific purposes by grantors, donors, or law. Restrictions on these assets are released when the University complies with the stipulations required by the grantor, donor, or legislative act.

  Nonexpendable—Net position that is required to be retained permanently by the University. These assets represent the principal portion (historical value) of gifts to the University's true and life endowment funds, and institutional contributions to refundable loan programs.

- **Net investment in capital assets**: Net investment in capital assets represents capital assets net of accumulated depreciation and outstanding debt used to purchase, construct, or improve such assets. If debt has been incurred but not yet expended for capital assets, these unspent proceeds are classified as restricted-expendable net position.

If both restricted and unrestricted resources are to be used for the same purpose, the resources are used in accordance with applicable instructions of the grantor, donor, or law.

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

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

- **Operating revenues**: Revenues that result from exchange activities that contribute to the University's mission of Research and Discovery; Teaching and Learning; and Outreach and Public Service. Exchange activities are transactions where the amount received approximates the fair market value of the goods or services given up. The University considers student tuition and fees (net of scholarship allowances), most grants and contracts, interest on student loans, and sales and services of auxiliary and educational activities (net of scholarship allowances) to be exchange transactions.

- **Nonoperating revenues**: Revenues that represent nonexchange activities. The primary sources of these revenues are federal and state appropriations, gifts, capital grants, federal and state financial aid grants (such as Pell and Supplemental Educational Opportunity Grants), and other nonexchange grants and contracts. Although the University relies upon these revenue sources to fund the cost of operations, the grantor or donor is not the direct recipient of the goods or services delivered under the grant or gift terms. Insurance recovery proceeds are also classified as nonoperating revenues as part of other nonoperating revenues, net, which total $2,510 and $740 for fiscal years 2013 and 2012, 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 2013 and 2012, departmental research in nonsponsored accounts of $180,713 and $160,535, 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 position 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. 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. The provisions of this Statement are effective for fiscal year 2014.

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. The provisions of this Statement are effective for fiscal year 2014.

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. The provisions of this Statement are effective for fiscal year 2015.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations,* establishes accounting and financial reporting standards related to combinations and disposals of operations, such as mergers, acquisitions, and transfers of operations. The provisions of this Statement are effective for fiscal year 2015.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees,* addresses financial guarantees in situations where the University would commit to indemnify an external entity that issued an obligation and whereby does not fulfill its payment requirements, or when an external entity commits to indemnify the University in a comparable transaction. The provisions of this Statement are effective for fiscal year 2014.

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, 2013 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, 2013:

	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	$ 166,847	$ 24,496	$ 713		1,756	$ 194	$ 194,006
Short-term investments	89,534						$ 89,534
Total current assets	256,381	24,496	713		1,756	194	283,540
Restricted cash and cash equivalents					87,005		87,005
Investments—Securities	731,220	333,124		$ 38			1,064,382
Investments—Other		717,846	45,304	25,991		35,633	824,774
Total noncurrent investments	731,220	1,050,970	45,304	26,029		35,633	1,889,156
Total cash and investments	$ 987,601	$ 1,075,466	$ 46,017	$ 26,029	$ 88,761	$ 35,827	$ 2,259,701

The following table summarizes (in thousands) 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

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, 2013 and 2012, the market value of the TIP assets invested in the CEF was $123,638 and $112,611 respectively. These assets are reported in the total cash and investments of the CEF. In addition, the Investment of Reserves policy guidelines include the following:

average duration of four years or less for the entire pool and maximum duration of seven years for any individual holding; average credit quality of A1/A+ or better; no use of leverage; and credit ratings of investment grade defined as Baa3/BBB- or better by Moody's or Standard & Poor's. Retention of a lower rated security requires approval by the president or delegate with notification to the Board.

For June 30, 2013 and 2012 the TIP's average Standard & Poor's credit rating was AA+ and AAA, respectively.

Consolidated Endowment Fund (CEF)—The CEF represents the pooling of funds from both public and private sources for which donor intent, law, or institutional decree determines the principal amount that must be invested in perpetuity or other specified time frames. The funds are invested to achieve an inflation-adjusted rate of return, after expenses are deducted, that exceeds the current payout rate of 4.5 percent of the average of the endowment's trailing month-end market values for the prior 60 months. The Board reserves the authority to approve asset allocation ranges for this pool. For fiscal years ended June 30, 2013 and 2012, \$46,267 and \$10,179, respectively, in net appreciation over the prior fiscal year was made available for departmental spending in restricted expendable net assets.

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

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

The CEF is a diversified portfolio that utilizes external investment managers. The CEF assets are held in separately managed accounts, commingled pools, and limited partnerships (LP). Each of these fund structures has different risk and return characteristics. LP investments are privately negotiated transactions with limited liquidity. LPs are required to conduct an external audit annually in accordance with the Financial Accounting Standards Board or the International Accounting Standards Board. As of June 30, 2013 and 2012, the University had unfunded commitments to LPs of \$161,157 and \$166,641, 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, 2013 and 2012, the market value of the GIP assets invested in the CEF was \$11,916 and \$10,622, 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	$ 10,326	$ (12,093)	$ (1,767)
Consolidated Endowment Fund	93,777	26,728	120,505
Group Investment Pool	2,148	(1,394)	754
Separately Invested Funds and Other	45	(3,417)	(3,372)
Invested Assets Related to Indebtedness	7	3,701	3,708
RUMINCO, Ltd. Insurance Subsidiary	2,412	557	2,969
Total 2013	$ 108,715	$ 14,082	$ 122,797
Total 2012	$ 64,556	$ (27,661)	$ 36,895

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, 2013:

Fixed-income securities:		Market Value	Weighted Average Maturity (years)	AA or Better	BBB to A	BB or Lower	Not Rated
Cash & equivalents	$	205,380	0.00	100			
Mortgage-backed securities		93,636	20.6	100			
US Agency		601,139	3.1	100			
US Treasury		124,160	3.5	100			
Mutual Funds		224,655	5.7				100
Total marketable fixed-income securities		1,248,970	4.4				
Private fixed-income securities		35,010					
Total fixed-income securities	$	1,283,980					

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					

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, 2013, and 2012, 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, 2013 and 2012:

Investment type	Foreign currency	Market value 2013	Market value 2012
Equity/Debt/RE	Euro	$ 53,281	$ 45,113
Equity	British Pound Sterling	32,336	12,355
Equity	Japanese Yen	24,251	16,346
Equity	Hong Kong Dollar	10,024	7,868
Equity	Canadian Dollar	7,382	4,692
Equity/Debt	Swiss Franc	5,555	3,072
Equity	Australian Dollar	5,368	4,285
Equity	South African Rand	4,088	2,738
Equity/Debt	Brazilian Real	3,729	4,936
Equity/Debt	Mexican Peso	3,690	2,793
Equity	Singapore Dollar	3,131	2,191
Equity/Debt	South Korean Won	2,344	5,500
Equity	Swedish Krona	2,227	1,536
Equity	Malaysian Ringgit	1,985	1,501
Equity	Thailand Baht	1,233	860
Debt	Indonesian Rupiah	927	918
Equity	Philippine Peso	801	10
Debt	Russian Ruble	761	566
Equity	Danish Krone	679	406
Equity	Norwegian Krone	670	414
Equity	New Taiwan Dollar	644	3,629
Equity	Turkish Lira	638	604
Equity	Indian Rupee	317	2,143
Equity	Israeli Shekel	289	193
Equity/Debt	Other Currency	234	274
Equity	Chile Peso	214	-
Equity	Uruguay Peso	211	-
Equity	Polish Zloty	88	449
Equity	New Zealand Dollar	80	40
Debt	Argentine Peso	73	-
Equity/Debt	Chinese Renminbi	-	2,245
Total		$ 167,250	$ 127,677

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 scheduled, the Dodd-Frank Wall Street Reform and Consumer Protection Act expired on December 31, 2012. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits that are held in the same ownership category, and the FDIC insured amount reverted back to $250,000. As of June 30, 2013 the University's bank balances of $203,130 were uninsured and uncollateralized and as of June 30, 2012 the University's bank balances of $182,138 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, 2013, and 2012, the market value of investments held in the custodial accounts was $818,936 and $785,352 in TIP and $69,574 and $28,770 in CEF, respectively.

3. Other Asset and Liability Information

Receivables, net, and student loans receivable as of June 30, 2013, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$ 9,498		$ 9,498
Sponsored grants and contracts	108,265		108,265
Notes receivable	1,300	$ 4,136	5,436
Student receivables	40,737		40,737
Trade receivables	122,893		122,893
Accrued interest	2,283		2,283
Other	24,010	12	24,022
Allowance for uncollectible accounts	(11,965)		(11,965)
Total receivables, net	$ 297,021	$ 4,148	$ 301,169

Student loans receivable	16,926	54,634	$ 71,560
Allowance for uncollectible accounts	(3,069)	(546)	(3,615)
Student loans receivable, net	$ 13,857	$ 54,088	$ 67,945

Accrued liabilities as of June 30, 2013, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 14,553	$ 714	$ 15,267
Compensation and benefits	130,661	119,206	249,867
Self-insurance reserves	32,445	10,535	42,980
Accrued interest	11,552		11,552
Refundable advances		53,330	53,330
Other	50,190	779	50,969
Total accrued liabilities	$ 239,401	$ 184,564	$ 423,965

Activity for certain liabilities consisted of the following as of June 30, 2013:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated balances (excluding pensions, OPEB, termination benefits, see Notes 6, 10, 11)	$ 220,097	$ 144,233	$ (119,135)	$ 245,195	$ 130,661
Self-insurance reserves (see Note 9)	48,109	256,536	(261,665)	42,980	32,445
Refundable advances	55,037	0	(1,707)	53,330	0
Other	41,123	50,969	(41,123)	50,969	50,190

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, OPEB, termination benefits, see Notes 6, 10, 11)	$ 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

4. Capital Assets

Capital assets, net as of June 30, 2013, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable / amortizable capital assets					
Buildings and improvements	$ 3,313,255	$ 41,854	$ 140,625		$ 3,495,733
Leasehold improvements	9,242	409	124	(41)	9,734
Equipment	721,675	61,663		(42,173)	741,165
Infrastructure	438,055	(83)	23,553		461,525
Library and reference books	139,389	5,283			144,672
Capitalized software (intangible asset)	111,949	5,986			117,935
All other intangible assets	4,473	579			5,052
Total depreciable / amortizable capital assets	4,738,038	115,691	164,302	(42,214)	4,975,816
Non-depreciable / amortizable capital assets					
Land	90,189	901			91,090
Museums and collections	51,728	2,246	721		54,695
Construction in progress	186,973	256,499	(165,023)	(346)	278,103
Permanent right-of-way easements (intangible asset)	2				2
Total non-depreciable / amortizable capital assets	328,892	259,646	(164,302)	(346)	423,890
Accumulated depreciation / amortization					
Buildings and improvements	(1,489,974)	(91,269)			(1,581,243)
Leasehold improvements	(4,327)	(796)			(5,123)
Equipment	(496,331)	(61,492)		40,326	(517,497)
Infrastructure	(217,352)	(15,070)			(232,422)
Library and reference books	(72,275)	(12,508)			(84,783)
Capitalized software (intangible asset)	(86,762)	(11,378)			(98,140)
All other intangible assets	(2,958)	(626)			(3,584)
Total accumulated depreciation / amortizable	(2,369,979)	(193,139)	-	40,326	(2,522,792)
Capital assets, net	$ 2,696,951	$ 182,198	$ -	$ (2,234)	$ 2,876,914
Summary					
Depreciable / amortizable capital assets	$ 4,738,038	$ 115,691	$ 164,302	$ (42,214)	$ 4,975,816
Non-depreciable / amortizable capital assets	328,892	259,646	(164,302)	(346)	423,890
Total capital assets	5,066,930	375,337		(42,560)	5,399,706
Less accumulated depreciation / amortization	(2,369,979)	(193,139)		40,326	(2,522,792)
Capital assets, net	$ 2,696,951	$ 182,198	$ -	$ (2,234)	$ 2,876,914

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

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable / amortizable capital assets					
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
Non-depreciable / amortizable capital assets					
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
Accumulated depreciation / amortization					
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
Summary					
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

5. Long-Term Debt

Long-term debt on June 30, 2013, consisted of the following:

	Original issued amount (par)	Fiscal year issued	Interest rate	Due at various dates through fiscal year	FY 2013 beginning balance	Additions	Reductions	FY 2013 ending balance	Current portion
General obligation bonds									
*Series 2013B (taxable)	13,780	2013	2.60%-3.75%	2038		$ 14,134	$ 5	$ 14,129	$ 359
*Series 2013A (tax-exempt)	73,570	2013	2.00%-5.00%	2038		82,349	129	82,220	2,102
*Series 2011D (tax-exempt)	53,610	2012	2.00%-5.00%	2037	$ 60,808		1,455.00	59,353	1490
*Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037	19,322		299	19,023	529
*Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	348,776		22,182	326,594	23,022
Series 2010B (taxable)	41,720	2011	.74%-5.02%	2036	40,800		1295	39,505	1,305
Series 2010D (taxable)	27,200	2010	3.86%-5.77%	2030	27,200			27,200	
*Series 2010C (tax-exempt)	8,480	2010	2.00%-4.00%	2016	6,130		1,470	4,660	1,510
*Series 2009D (taxable)	37,330	2009	6.30%	2029	37,049		(17)	37,066	(17)
*Series 2009C (tax-exempt)	44,625	2009	1.50%-5.00%	2022	39,984		3,317	36,667	3,472
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	15,405		620	14,785	640
*Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	39,568		1,136	38,432	1,171
Commercial paper notes, Series A	159,100	2006	.10%–.16%	2014	124,100		7,000	117,100	117,100
Commercial paper notes, Series B	61,000	2007	.11%–.15%	2014	46,000		3,000	43,000	43,000
Commercial paper notes, Series C	70,000	2008	.11%–.16%	2014	54,000		3,500	50,500	50,500
Commercial paper notes, Series D	25,000	2010	.12%–.15%	2014	22,250		2,800	19,450	19,450
Obligations to the State of Minnesota pursuant to infrastructure development bonds	109,234	1991-2006	3.55%–5.70%	2025	30,639		4,822	25,817	4,306
Auxiliary revenue bonds	12,555	1974-1977	3.00%	2014	1,420		800	620	620
*Special purpose revenue bonds, Series 2011B (tax-exempt)	52,485	2012	3.00%-5.00%	2037	57,736		593	57,143	1,398
*Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%–5.00%	2036	122,629		3,056	119,573	3,171
*Special purpose revenue bonds, Series 2006 (tax-exempt)	137,250	2007	4.00%–5.00%	2030	126,584		4,969	121,615	5,169
Capital leases		1999-2013	1.98%–10.00%	2024	5,988	45,306	5,016	46,278	5,119
Total	$1,450,979				$ 1,226,388	$ 141,789	$ 67,447	$1,300,730	$ 285,416

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

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 (tax-exempt)	53,610	2012	2.00%-5.00%	2037		$ 60,964	$ 156	$ 60,808	$ 1,455
*Series 2011C (taxable)	19,335	2012	0.90%-4.56%	2037		19,322		19,322	299
*Series 2011A (tax-exempt)	335,270	2011	2.00%-5.50%	2037	$ 368,073		19,297	348,776	22,182
Series 2010B (taxable)	41,720	2011	.74%-5.02%	2036	41,720		920	40,800	1,295
Series 2010D (taxable)	27,200	2010	3.86%-5.77%	2030	27,200			27,200	
*Series 2010C (tax-exempt)	8,480	2010	2.00%-4.00%	2016	7,570		1,440	6,130	1,470
*Series 2009D (taxable)	37,330	2009	6.30%	2029	37,032		(17)	37,049	(17)
*Series 2009C (tax-exempt)	44,625	2009	1.50%-5.00%	2022	43,171		3,187	39,984	3,317
Series 2009B (taxable)	17,035	2009	2.50%-6.00%	2029	16,005		600	15,405	620
*Series 2009A (tax-exempt)	41,000	2009	3.00%-5.25%	2034	40,672		1,104	39,568	1,136
Series 2001B (taxable)	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 (tax-exempt)	52,485	2012	3.00%-5.00%	2037		57,893	157	57,736	593
*Special purpose revenue bonds, Series 2010A (tax-exempt)	111,400	2011	3.00%–5.00%	2036	123,840		1,211	122,629	3,056
*Special purpose revenue bonds, Series 2006 (tax-exempt)	137,250	2007	4.00%–5.00%	2030	131,353		4,769	126,584	4,969
Capital leases		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.**

General Obligation Bonds

On February 19, 2013, the University issued General Obligation Taxable Bonds, Series 2013B and General Obligation Bonds, Series 2013A in the par amount of $13,780 and $73,570, respectively. The proceeds will be used to fund various capital projects including the renovation of Northrop Memorial Auditorium, the construction of a student residence hall and dining facility, and the construction of the Physics & Nanotechnology Building, all on the Twin Cities campus, and construction of residence halls on each of the Crookston and Morris campuses. The 2013B bonds were issued at coupon rates of 2.6 – 3.75 percent with a premium of $354. The 2013A bonds were issued at coupon rates of 2.0 – 5.0 percent with a premium of $8,779.

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 various capital projects including portions of the renovation of Northrop Memorial Auditorium, the renovation of the Recreation Center, and construction of the student residence hall and dining facility, all on the Twin City campus, and the acquisition and installation of equipment related to these projects. 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 or more biomedical science research facilities. The 2011C bonds were issued at coupon rates of 0.9 – 4.56 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 and 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. 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 is expected to receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. Due to the implementation of federal sequestration during FY13, the subsidy payment received to offset the August 1, 2013 interest payment was reduced by 8.7%. 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.

The University has outstanding General Obligation Taxable Bonds, Series 2010D and Series 2009D which are Build America Bonds – Direct Payment to Issuer, whereby the University is expected to receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. Due to the implementation of federal sequestration during FY13, the subsidy payments received to offset the Series 2010D August 1, 2013 interest payment and the Series 2009D June 1, 2013 interest payment were reduced by 8.7%.

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.

On October 23, 2013, the University sold General Obligation Taxable Bonds, Series 2013D in the par amount of $12,760, the third 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 or more biomedical science research facilities. The 2013D Official Statements will be released subsequent to the sale of the bonds currently scheduled for October 29, 2013 with the closing of the transactions planned on or about November 6, 2013.

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 or more 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 – 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.

On October 23, 2013, the University sold Special Purpose Revenue Bonds, Series 2013C in the par amount of $35,060, the third 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 or more biomedical science research facilities. State of Minnesota legislation provides for an annual appropriation to reimburse the University for the annual debt service on these bonds. The 2013C Official Statements will be released subsequent to the sale of the bonds currently scheduled for October 29, 2013 with the closing of the transactions planned on or about November 6, 2013.

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 and buildings, to finance construction and remodeling projects to be undertaken by the University, and to finance the acquisition and installation of equipment by the University. The commercial paper is backed by the University's self-liquidity, which was supported by a $40,000 line of credit with a major commercial bank. The one-year term of the existing credit agreement was due to expire on September 30, 2013. In June 2013, the University provided notice to the bank to terminate the credit agreement effective July 19, 2013. No amounts were ever 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 $1,544 in fiscal year 2013, and $2,270 in fiscal year 2012, were pledged as security to pay total debt service payments of $887 and $930 for auxiliary revenue bonds in fiscal years 2013 and 2012, 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 $780 on June 30, 2013 and $1,201 on June 30, 2012, for future debt service. An additional $976 and $975 was set aside for building replacement reserves on June 30, 2013 and June 30, 2012, respectively. These mandatory reserves are included in restricted expendable net position 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 $77,448 as of June 30, 2013 and $91,915 as of June 30, 2012 of which the University owes $25,817 and $30,639, respectively.

Capital Leases

The University has seven distinct capital leases. Three of the seven agreements are financed through third-party financing for purchase of fleet vehicles and other equipment. The remaining four capital leases have payments being paid directly to the lessor and represent leases for buildings and equipment. Associated capital assets acquired through capital leases for buildings totaling $55,451 with related accumulated depreciation of $15,163, and capital leases for equipment totaling $14,653 with related accumulated depreciation of $8,663. The capital leases bear interest rates between 1.98 percent and 10.00 percent, with none extending beyond fiscal year 2024. One of the third-party financing agreements bears interest, which is tied to the 30 Day LIBOR Index **, 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, 2013 and does not extend beyond fiscal year 2017. A second third-party financing agreement has interest rates tied to commercial paper, which ranged from 1.98 percent to 2.44 percent during fiscal year ended June 30, 2013.

Interest Rate Swaps

At June 30, 2013 the University has one freestanding pay-fixed, receive-variable interest rate swap that is considered an ineffective hedge, where the changes in fair value are included in investment income reported in the Consolidated Statements of Revenues, Expenses, and Changes in Net Position.

At June 30, 2012 the University had three freestanding pay-fixed, receive-variable interest rate swaps. The two swaps with notional amounts of $37,500 each matured in fiscal year 2013. Fixed rates of 4.88 percent and 4.90 percent, respectively, were paid to two separate counterparties; the variable rate received on both was based on the LIBOR Index **.

The terms, fair values, and credit rating of the outstanding swap as of June 30, 2013, 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	$ (11,899)	8/27/2017
		$ 70,000					$ (11,899)	

* 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 swap that exists at the end of fiscal year 2013 is with a counterparty that is rated A2 by Moody's Investors Service**.** The University faces maximum possible losses equivalent to the amount of the derivative's fair value should the counterparty not perform under the terms of the swap agreements. Due to the fair value of the swap being negative as of June 30, 2013, 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 the two swaps that matured during the current fiscal year since the variable-rate payments received by the University on the swaps were based on a rate or index other than interest rates the University pays to the holders of its commercial paper.

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

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, 2013, 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							
2014	$ 50,247	$ 230,050	$ 5,119	$ 285,416	$ 47,110	$ 3,423	$ 335,949
2015	51,058		5,196	56,254	44,697	3,423	104,374
2016	52,671		5,211	57,882	42,336	3,423	103,641
2017	54,491		4,875	59,366	39,886	3,423	102,675
2018	56,529		4,763	61,292	37,283	544	99,119
2019-2023	244,475		18,196	262,671	148,989		411,660
2024-2028	230,235		2,918	233,153	94,362		327,515
2029-2033	187,208			187,208	41,700		228,908
2034-2038	97,488			97,488	9,075		106,563
	$1,024,402	$ 230,050	$ 46,278	$1,300,730	$ 505,438	$ 14,236	$1,820,404

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, 2013	Bond call date
General obligation bonds 1982 Series A	4/23/1985	$ 112,635	$ 65,000	$ 27,375	12/1/2016
General obligation bonds 1996 Series A	10/2/2005	159,000	159,000	117,000	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, 2013 or June 30, 2012.

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 26 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 93 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. 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), 60 Empire Drive, Suite 200, St. Paul, MN 55103.

State Employees' Retirement Fund (SERF)

The State Employees' Retirement Fund (SERF) covers approximately 9,200 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. 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), 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					
2013	$172	$6	$59	$511	$20,800
2012	226	5	61	462	20,244
2011	271	5	66	471	21,269
University					
2013	$172	$34	$878	$766	$20,800
2012	226	33	900	693	20,249
2011	271	32	957	706	21,285

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 171 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)	$	392
Interest on net pension obligation (NPO)		134
Adjustment to ARC		(377)
Annual pension cost (expense)	$	149
Less contributions made – fiscal year ended June 30, 2013		(409)
Decrease in NPO	$	(260)
NPO—June 30, 2012		2,682
NPO—June 30, 2013	$	2,422

Three-Year Trend Information

Fiscal year ended	Annual pension cost	Employer contribution	Percentage of annual pension cost contributed	Net pension obligation
6/30/2013	$149	$409	274.50%	$2,422
6/30/2012	177	409	231.07%	2,682
6/30/2011	136	356	261.76%	2,914

Schedule of Funding Progess

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2012	$1,883	$4,672	$2,789	40.30%	$659	423.22%
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%

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	7/1/2012
Actuarial cost method	Entry age
Amortization method	Level of dollar by 6/30/2021, closed
Remaining amortization period	9 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 7,300 active faculty and professional and administrative (P&A) staff. This amount includes approximately 850 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 4,100 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 880 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. Ten University employees are part of this plan.

Contributions Made for Fiscal Year 2013

	FRP	ORP	457	415(m)
Employee	$19,638	$39,276	$11,639	N/A
University	93,827	323	N/A	162

7. Related Organization

The University is responsible for appointing eight members of the 15 member Board of Directors of UCare Minnesota, a licensed nonprofit health maintenance organization (HMO) that provides medical services for its members. The University's accountability for this organization, however, does not extend beyond making Board appointments. The dean of the University of Minnesota Medical School and the head of the University's Department of Family Medicine and Community Health appoint six board members; two members are automatically appointed by virtue of the University positions that they hold.

8. Commitments and Contingencies

Construction projects in progress, principally buildings, approximated $278,103 on June 30, 2013. The estimated cost to complete these facilities is $251,810, which is to be funded from plant fund assets and $83,420 in appropriations available from the State of Minnesota as of June 30, 2013.

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. Total operating lease expenditures for the years ended June 30, 2013 and 2012, were $18,624 and $21,246, respectively, of which $14,640 and $17,784 were for real property and $3,624 and $3,462 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2013, for the next five years and in subsequent five-year periods are as follows:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2014	$500	$10,143	$10,643
2015		5,892	5,892
2016		3,623	3,623
2017		3,478	3,478
2018		3,274	3,274
2019-2013		12,916	12,916
2024-2028		9,935	9,935
2029-2033		10,171	10,171
2034-2038		2,603	2,603
Total commitments	$500	$62,035	$62,535

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 0.45 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, 2013, are shown below:

	Liability beginning of year	New Claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$8,142	$801	($1,639)	($123)	$7,181
Workers' compensation	11,574	2,999	(2,999)	186	11,760
UPlan medical	21,139	216,606	(215,935)	(5,445)	16,365
UPlan dental	996	16,934	(16,131)	(513)	1,286
Graduate assistant health plan	1,198	18,942	(18,942)	248	1,446
Student health plan	4,561			(125)	4,436
Medical Residents & Fellows	499			5	504

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

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, 2013 and 2012 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 provided 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 was 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 was 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
2013	73	$632
2012	122	1,473

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
2013	83	$988
2012	139	1,763

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
2013	82	$1,017
2012	95	1,089

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
2013	12	$21
2012	5	6

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
2013	136	$1,316
2012	339	3,801

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 2013:

Beneficiary type	Beneficiary annual rate (Actual amounts, not rounded to thousands)
Non-Medicare retiree	$5,896
COBRA	6,014
Disabled Participants	5,896

The UPlan is currently financed on a pay-as-you-go basis. For fiscal year 2013, the University paid $ 6,746 on behalf of former employees and eligible disabilitants who participate in the UPlan.

Annual OPEB Cost and Net OPEB Obligation

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

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

Annual required contribution (ARC)	$28,128
Interest on net OPEB obligation	2,520
Adjustment to annual required contribution	(4,456)
Annual OPEB cost (expense)	26,192
Less contributions made – fiscal year ended June 30, 2013	(6,746)
Increase in net OPEB obligation	19,446
Net OPEB obligation—June 30, 2012	62,987
Net OPEB obligation—June 30, 2013	$82,433

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
6/30/2013	$26,192	$6,746	25.8%	$82,433
6/30/2012	24,800	5,944	24.0%	62,987
6/30/2011	19,939	9,290	46.6%	44,131

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, is as follows:

Actuarial accrued liability (AAL)	$94,555
Actuarial value of plan assets	
Unfunded actuarial accrued liability (UAAL)	94,555
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Increase in net OPEB obligation	$19,446
Covered payroll (active plan members)	1,203,994
UAAL as a percentage of covered payroll	7.85%

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 liability of $2,603 for the standard implicit subsidy due to the impact of the retirement incentive (RIO) program being reinstated during Fiscal Year 2008.

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, 2013.

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	7/1/2013
Actuarial cost method	Entry age
Amortization method	Level Dollar, Open Group
Remaining amortization period	20 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	3.33%
Projected Payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	6.70%
2nd year rate	6.50%
Ultimate rate	5.00%
Year ultimate rate reached	2060

12. Operating Expenses by Natural Classification

Operating expenses by natural classification for June 30, 2013, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 637,233	$ 100,363			$ 737,596
Research	423,002	233,549			656,551
Public service	158,293	90,964			249,257
Academic support	284,620	82,645			367,265
Student services	86,978	23,252			110,230
Institutional support	151,181	46,138			197,319
Operation and maintenance of plant	110,147	156,847			266,994
Scholarships and fellowships	8,427	2,689	$ 39,319		50,435
Depreciation				$ 193,139	193,139
Auxiliary enterprises	96,224	139,187			235,411
Other operating expense		19			19
	$ 1,956,105	$ 875,653	$ 39,319	$ 193,139	$ 3,064,216

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	415,041	218,135			633,176
Public service	153,918	91,593			245,511
Academic support	292,058	68,568			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

13. Subsequent Events

On October 14, 2013, the University released the Preliminary Official Statements for Special Purpose Revenue Bonds, Series 2013C and General Obligation Taxable Bonds, Series 2013D, in the par amounts of $35,060 and $12,760, respectively. The bonds are the third tranche of the Biomedical Science Research Facilities Funding Program and the proceeds will be used to fund a portion of the costs of construction of one or more biomedical science research facilities. The Official Statements will be released subsequent to the sale of the bonds currently scheduled for October 29, 2013 with the closing of the transactions planned on or about November 6, 2013.

Effective July 19, 2013, the University terminated its line of credit agreement which backed the University's self-liquidity supporting its Commercial Paper Notes Series A, B, C, and D. The maximum line of credit had been established at $40,000 for the period October 1, 2012 through September 30, 2013.

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

14. Component Units

Discretely Presented Component Units

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

Investments

Investments in cash equivalents, corporate bonds, other fixed income securities, hedge funds, 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, 2013, are summarized as follows:

	Traditional structures	Alternate structures	Total
Cash and cash equivalents	$ 376,944		$ 376,944
Fixed income	280,890	$ 22,465	303,355
Global equity	109,041	223,555	332,596
Hedge funds	18,047	348,375	366,422
Natural resources		110,296	110,296
Treasury inflation protected securities (TIPS)	52,516		52,516
Real estate		90,857	90,857
Private equity		400,917	400,917
Other investments		3,378	3,378
Subtotal	837,438	1,199,843	2,037,281
Less charitable gift annuities reported separately			(33,311)
Total			$ 2,003,970

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 $1,199,843 of investments in alternative structures which are reported at net asset value as a practical expedient. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if UMF were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Fair Value Measurements

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, 2013:

	Fair value measurements using			Total fair value of assets at
	Level 1	Level 2	Level 3	June 30, 2013
Investments:				
Cash and cash equivalents	$ 376,944			$ 376,944
Fixed income:				
Asset backed securities		$ 44,432		44,432
Mortgages		19,780		19,780
Alternative structures			$ 22,465	22,465
Corporate bonds		9,761		9,761
Government		203,794		203,794
Other		3,123		3,123
Global equity:				
Small cap	85,285			85,285
Large cap	23,756			23,756
Alternative structures			223,555	223,555
Hedge funds:				
Directional long biased equity			139,344	139,344
Fixed income arbitrage	18,047		91,788	109,835
Long/short nonequity			49,188	49,188
Market neutral equity			24,279	24,279
Structured credit			43,776	43,776
Natural resources			110,296	110,296
Real estate			90,857	90,857
Treasury inflation protected securities (TIPS)		52,516		52,516
Private equity:				
Buyout			143,709	143,709
Distressed			69,367	69,367
Special situations			39,521	39,521
Venture capital			148,320	148,320
Other investments			3,378	3,378
Total investments	$ 504,032	$ 333,406	$ 1,199,843	$ 2,037,281
Gift annuities not categorized above	$ 7,011			$ 7,011
Beneficial interest in perpetual trusts			$ 67,619	67,619
Beneficial interest in trusts			5,630	5,630

There were no transfers between Level 1, Level 2, or Level 3 during the year ended June 30, 2013.

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, 2012	Fair market value of assets acquired from the Minnesota Medical Foundation	Investment income	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2013	Net change in unrealized gains (losses) included in change in net assets for the period relating to investments held at June 30, 2013
Fixed income:								
Alternative structures	$ 21,061	$ 50,342	$ (7)	$ 1,763	$ 6,483	$ (57,177)	$ 22,465	$ 1,902
Global equity:								
Alternative structures	187,823	143,862	782	40,848	11,887	(161,647)	223,555	35,148
Hedge funds:								
Directional long-biased equity	109,872	37,392		19,114	2,500	(29,534)	139,344	18,710
Fixed income arbitrage	78,933			2,855	10,000		91,788	2,855
Fund of funds				(61)	61			
Long/short nonequity	50,880			8,590	5,000	(15,282)	49,188	6,704
Market neutral equity	32,983	13,351		1,802		(23,857)	24,279	1,802
Structured credit	19,580			9,196	15,000		43,776	9,196
Natural resources	91,213	1,216	(25)	(5,427)	35,057	(11,738)	110,296	(5,427)
Real estate	76,059	5,337	24	10,735	10,387	(11,685)	90,857	10,735
Private equity:								
Buyout	127,426	8,547	(39)	15,739	6,227	(14,191)	143,709	15,739
Distressed	68,436	4,949	(1)	17,508	5,899	(27,424)	69,367	17,508
Special situations	21,863			209	18,362	(913)	39,521	209
Venture capital	153,368	2,904	(61)	30,062	18,728	(56,681)	148,320	28,696
Other investments	3,389			(32)	22	(1)	3,378	(33)
Total	$ 1,042,886	$ 267,900	$ 673	$ 152,901	$ 145,613	$ (410,130)	$ 1,199,843	$ 143,744

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, 2012	Fair market value of assets acquired from the Minnesota Medical Foundation	Change in carrying value of trusts	Net realized and unrealized gains (losses)	Purchases/ Sales	Ending balance at June 30, 2013	Net change in unrealized gains (losses) included in change in net assets for the period relating to investments held at June 30, 2013
Beneficial interest in trusts	$ 26,787	38,715	7,747			73,249	$ 7,747

Net Assets

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

1. Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of UMF.

2. Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are time restricted.

3. Permanently restricted net assets consist of contributions that have been restricted by the donor that stipulate the resources be maintained permanently, but permit UMF to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets are available as of June 30, 2013, 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	$ 7,369
Faculty support	7,800
Scholarships and fellowships	94,438
Lectureships, professorships, and chairs	151,304
College program support	62,154
Research	8,834
Other	2,031
Subtotal	$ 333,930

Gifts and other unexpended revenues and gains available for:	
Capital improvement/facilities	$ 132,426
Faculty support	14,126
Scholarships and fellowships	138,893
Lectureships, professorships, and chairs	38,677
College program support	285,514
Research	135,518
Trusts	13,238
Other	8,587
Subtotal	766,979
Total temporarily restricted net assets	$ 1,100,909

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, 2013, are as follows:

Capital improvement/facilities	$ 7,284
Faculty support	23,247
Scholarships and fellowships	362,153
Lectureships, professorships, and chairs	317,635
College program support	95,728
Research	37,757
Trusts	77,115
Other	2,444
Total	$ 923,363

Blended Component Units

Condensed statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows for fiscal years ended June 30, 2013 and 2012 for RUMINCO, Ltd, a blended component unit of the University, are as follows:

Condensed statements of net position:	**2013**	**2012**
Current assets	$ 398	$ 521
Noncurrent assets	35,633	32,374
Total assets	36,031	32,895
Deferred outflows of resources		
Total assets & deferred outflows of resources	36,031	32,895
Current liabilities	2,103	3,061
Noncurrent liabilities	1,644	1,513
Total liabilities	3,747	4,574
Deferred inflows of resources		
Total liabilities & deferred inflows of resources	3,747	4,574
Unrestricted net position	$ 32,284	$ 28,321

Condensed statements of revenues, expenses, and changes in net position:	**2013**	**2012**
Operating revenues:		
Net underwriting income	$ 2,030	$ 721
Operating expenses	1,036	1,036
Operating income (loss)	994	(315)
Nonoperating revenues:		
Investment income, net	2,969	(60)
Increase (decrease) in net position	3,963	(375)
Net position at beginning of year	28,321	28,696
Net position at end of year	$ 32,284	$ 28,321

Condensed statements of cash flows:	**2013**	**2012**
Net cash provided (used) by:		
Operating activities	$ 1,134	$ 1,102
Investing activities	(1,162)	(1,156)
Net decrease in cash	(28)	(54)
Cash at beginning of year	95	149
Cash at end of year	$ 67	$ 95

Required Supplementary Information

Required Supplementary Information (RSI) (Unaudited)
Years ended June 30, 2013 and 2012 (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)
7/1/2012	$1,883	$4,672	$2,789	40.30%	$659	423.22%
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%

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)
7/1/2013	$ -	$94,555	$94,555	0.00%	$1,203,994	7.85%
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%

Additional information related to OPEB is provided in Note 11.

Deloitte.

Deloitte & Touche LLP
50 South Sixth Street
Suite 2800
Minneapolis, MN 55402-1538
USA

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

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated statement of net position of the University of Minnesota (the "University"); the related consolidated statements of revenues, expenses, and changes in net position; and cash flows as of and for the year ended June 30, 2013, and the related notes to the consolidated financial statements, which collectively comprise the University's basic consolidated financial statements, and have issued our report thereon dated November 1, 2013. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the University's consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Deloitte & Touche LLP

November 1, 2013