NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: Moody's: Aa2
Standard & Poor's: AA
See "RATINGS"

In the opinion of Dorsey & Whitney LLP, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, interest to be paid on the Series 2013C Bonds is (a) excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes; (b) included in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) not an item of tax preference included in alternative minimum taxable income for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates, and trusts; and (d) included in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal alternative minimum tax. See "TAX EXEMPTION" and, for a discussion of related tax matters, see "RELATED TAX MATTERS" herein.

$35,395,000
REGENTS OF THE UNIVERSITY OF MINNESOTA
Special Purpose Revenue Bonds
(State Supported Biomedical Science Research Facilities Funding Program)
Series 2013C

Dated: Date of Delivery **Due: August 1, as shown on the inside front cover**

The Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2013C (the "Series 2013C Bonds") are being issued as Additional Bonds by Regents of the University of Minnesota (the "University") pursuant to an Order of the University dated as of September 1, 2010 (the "September 1, 2010 State Supported Bond Order"), as supplemented by a Supplement No. 1 to the September 1, 2010 State Supported Bond Order, dated as of October 1, 2011 (the "October 1, 2011 Supplement"), and by a Supplement No. 2 to the September 1, 2010 State Supported Bond Order, dated as of November 1, 2013 (the "November 1, 2013 Supplement" and, together with the September 1, 2010 State Supported Bond Order and the October 1, 2011 Supplement, the "State Supported Bond Order"), executed in accordance with resolutions of the Board of Regents of the University (the "Board of Regents") adopted on November 14, 2008, November 13, 2009, July 7, 2010, June 10, 2011 and June 14, 2013 (collectively, the "Resolutions"). The Resolutions authorize the issuance by the University of bonds that are payable from specified transfers that are expected to be made by the State of Minnesota ("State Transfers" and the "State") and of separate University supported bonds to fund a portion of the costs of construction of one or more biomedical science research facilities funding projects within the University's Biomedical Discovery District on its Twin Cities campus in Minneapolis and of certain related infrastructure improvements. See "USE OF PROCEEDS" and "THE BIOMEDICAL SCIENCE RESEARCH FACILITIES FUNDING PROGRAM."

The Series 2013C Bonds are issuable only as fully registered bonds without coupons, in denominations of $5,000 or any integral multiple thereof and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Ownership interest in the Series 2013C Bonds may be purchased only in book-entry form. Purchasers of Series 2013C Bonds will not receive certificates representing their interests in the Series 2013C Bonds.

Interest on the Series 2013C Bonds will accrue from their initial date of delivery to the initial purchasers (the "Underwriters"), will be payable on February 1 and August 1 of each year, commencing August 1, 2014, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Series 2013C Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See "DESCRIPTION OF THE SERIES 2013C BONDS —Redemption."

Maturity Dates, Amounts, Interest Rates, Yields, Prices and CUSIP Numbers
are shown on the inside front cover

So long as Cede & Co. is the owner, references herein to the registered owners shall mean Cede & Co., and shall not mean the beneficial owners of the Series 2013C Bonds (each, a "Beneficial Owner"). Principal and interest on the Series 2013C Bonds will be paid directly by U.S. Bank National Association, St. Paul, Minnesota, or its successor, as Paying Agent, to DTC or its nominee, Cede & Co. Disbursements of such payments to the DTC participants are the responsibility of DTC, and disbursements of such payments to the Beneficial Owners are the responsibility of the DTC participants and the indirect participants. See "DESCRIPTION OF THE SERIES 2013C BONDS —Book-Entry Only System."

THE SERIES 2013C BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE UNIVERSITY OF MINNESOTA. SPECIFIED TRANSFERS EXPECTED TO BE MADE BY THE STATE OF MINNESOTA PURSUANT TO LEGISLATION PROVIDING FOR THE APPROPRIATION OF SUCH TRANSFERS FROM THE GENERAL FUND OF THE STATE ARE PLEDGED UNDER THE STATE SUPPORTED BOND ORDER FOR THE PAYMENT OF THE SERIES 2013C BONDS. THE SERIES 2013C BONDS ARE PAYABLE SOLELY FROM SUCH TRANSFERS AND NEITHER ANY OTHER REVENUES OR ASSETS OF THE UNIVERSITY, NOR THE FULL FAITH AND CREDIT OF THE UNIVERSITY, IS PLEDGED FOR THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2013C BONDS. THE UNIVERSITY HAS NO TAXING POWER. THE SERIES 2013C BONDS ARE NOT AN INDEBTEDNESS OR OTHER OBLIGATION OF THE STATE OF MINNESOTA, ARE NOT PUBLIC DEBT OF THE STATE, AND THE FULL FAITH AND CREDIT AND TAXING POWERS OF THE STATE ARE NOT PLEDGED FOR THEIR PAYMENT OR FOR ANY SUCH TRANSFERS TO THE UNIVERSITY. SEE "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

The Series 2013C Bonds are offered when, as and if issued subject to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. Certain legal matters will be passed upon for the University by its General Counsel, for the State of Minnesota by the State Attorney General and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York. It is expected that the Series 2013C Bonds will be available for delivery to DTC on or about November 6, 2013.

Barclays **Dougherty & Company, LLC**

October 29, 2013

$35,395,000
REGENTS OF THE UNIVERSITY OF MINNESOTA
Special Purpose Revenue Bonds
(State Supported Biomedical Science Research Facilities Funding Program)
Series 2013C

Maturity August 1	Principal Amount	Interest Rate	Yield	Price	CUSIP[†]
2014	$ 410,000	2.000%	0.400%	101.174%	914468DM2
2015	815,000	3.000	0.400	104.493	914468DN0
2016	845,000	4.000	0.610	109.183	914468DP5
2017	885,000	5.000	0.930	114.909	914468DQ3
2018	930,000	5.000	1.260	117.140	914468DR1
2019	975,000	5.000	1.680	118.080	914468DS9
2020	1,025,000	5.000	2.030	118.607	914468DT7
2021	1,080,000	5.000	2.360	118.564	914468DU4
2022	1,135,000	5.000	2.560	118.988	914468DV2
2023	1,190,000	5.000	2.730	119.288	914468DW0
2024	1,255,000	5.000	2.920[*]	117.512[*]	914468DX8
2025	1,305,000	3.250	3.400	98.554	914468DY6
2026	1,350,000	3.375	3.520	98.518	914468DZ3
2027	1,405,000	5.000	3.460[*]	112.632[*]	914468EA7
2028	1,480,000	5.000	3.600[*]	111.406[*]	914468EB5
2029	1,555,000	5.000	3.720[*]	110.369[*]	914468EC3
2030	1,635,000	5.000	3.840[*]	109.343[*]	914468ED1
2031	1,710,000	4.000	4.120	98.495	914468EE9
2032	1,780,000	4.125	4.210	98.900	914468EF6
2033	1,855,000	4.125	4.230	98.598	914468EG4

$10,775,000 5% Term Bonds due August 1, 2038, Yield 4.25%, Price 105.922%[*], CUSIP[†]: 914468EH2

[*] Calculated to the August 1, 2023 optional redemption date at a redemption price of 100%.

[†] CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. Neither the University nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT IN CONNECTION WITH THE SERIES 2013C BONDS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE UNIVERSITY OR THE UNDERWRITERS. NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE HEREUNDER SHALL CREATE ANY IMPLICATION THAT THERE HAS NOT BEEN A CHANGE IN THE AFFAIRS OF THE UNIVERSITY OR THE STATE OF MINNESOTA SINCE THE DATE HEREOF. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER OR SOLICITATION IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE UNIVERSITY, THE STATE OF MINNESOTA AND OTHER SOURCES WHICH ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION OF, THE UNDERWRITERS. THE INFORMATION AND EXPRESSIONS OF OPINION STATED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE. SEE "AVAILABILITY OF STATE INFORMATION," "AVAILABILITY OF UNIVERSITY INFORMATION" AND "CONTINUING DISCLOSURE."

THIS OFFICIAL STATEMENT IS DISTRIBUTED IN CONNECTION WITH THE INITIAL PUBLIC OFFERING OF THE SERIES 2013C BONDS. IN CONNECTION WITH THE OFFERING OF THE SERIES 2013C BONDS, THE UNDERWRITERS MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN OR OTHERWISE AFFECT THE PRICE OF THE SERIES 2013C BONDS. SUCH TRANSACTIONS MAY INCLUDE THE PURCHASE OF THE SERIES 2013C BONDS FOLLOWING THE PRICING OF THE OFFERING TO COVER A SHORT POSITION IN THE SERIES 2013C BONDS OR FOR THE PURPOSE OF MAINTAINING THE PRICE OF THE SERIES 2013C BONDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING." SUCH ACTIVITIES, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

$35,395,000
Regents of the University of Minnesota
Special Purpose Revenue Bonds
(State Supported Biomedical Science Research Facilities Funding Program)
Series 2013C

INTRODUCTORY STATEMENT

This Official Statement is furnished in connection with the offering by Regents of the University of Minnesota, a constitutional corporation under Minnesota law (the "University"), of its Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2013C (the "Series 2013C Bonds"). The Series 2013C Bonds are to be issued as Additional Bonds pursuant to the terms of an Order of the University dated as of September 1, 2010 (the "September 1, 2010 State Supported Bond Order"), as supplemented by a Supplement No. 1 to the September 1, 2010 State Supported Bond Order, dated as of October 1, 2011 (the "October 1, 2011 Supplement"), and by a Supplement No. 2 to the September 1, 2010 State Supported Bond Order, dated as of November 1, 2013 (the "November 1, 2013 Supplement" and, together with the September 1, 2010 State Supported Bond Order and the October 1, 2011 Supplement, the "State Supported Bond Order"), executed in accordance with resolutions of the Board of Regents of the University (the "Board of Regents") adopted on November 14, 2008, November 13, 2009, July 7, 2010, June 10, 2011 and June 14, 2013 (collectively, the "Resolutions"). The proceeds of the Series 2013C Bonds will be used to finance a portion of the costs of construction of one or more biomedical science research facilities funding projects within the University's Biomedical Discovery District (the "Biomedical Discovery District") on its Twin Cities campus in Minneapolis and of certain related infrastructure improvements (collectively, the "Biomedical Science Research Facilities Funding Program" or the "Program"). See "USE OF PROCEEDS" and "THE BIOMEDICAL SCIENCE RESEARCH FACILITIES FUNDING PROGRAM."

The Series 2013C Bonds do not constitute general obligations of the University, but are special limited obligations of the University. Specified transfers expected to be received by the University from the Commissioner of the Department of Management and Budget of the State of Minnesota (the "Commissioner" and the "State") pursuant to Sections 137.61 to 137.65 of the Minnesota Statutes (the "Biomedical Science Research Facilities Funding Program Act" or "the Act") are pledged under the State Supported Bond Order for the payment of the Series 2013C Bonds. The Act provides that annual amounts are appropriated from the General Fund of the State of Minnesota (the "General Fund") to be transferred by the Commissioner to the University to pay principal and interest on certain bonds issued by the University to fund biomedical science research facility projects. Neither any other revenues or assets of the University, nor the full faith and credit of the University, are pledged for the principal of or interest on the Series 2013C Bonds. In the opinion of Bond Counsel, such appropriations and transfers from the General Fund to the University do not require further State or other approval except as expressly provided in the Act. The Act provides that such transfer is conditioned upon certain actions by the University. The Act further provides that bonds issued by the University thereunder are not public debt of the State, and that the full faith and credit and taxing powers of the State are not pledged for their payment or of any payments that the State agrees to make thereunder. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

This Official Statement contains brief descriptions of the Series 2013C Bonds, certain provisions of the Act, the State, the University, the Biomedical Science Research Facilities Funding Program and certain provisions of the State Supported Bond Order, which descriptions do not purport to be comprehensive. All summaries herein of statutes, documents and agreements are qualified in their entirety by reference to such statutes, documents and agreements, copies of which are available for inspection at the principal administrative office of the University.

THE UNIVERSITY

The University was established in 1851 pursuant to Chapter 3 of the Territorial Laws of 1851. Under the Territorial Laws, the government of the University was vested in the Board of Regents. Article 8, Section 3, of the Constitution of the State of Minnesota adopted on October 13, 1857, perpetuated all of the rights, immunities, franchises and endowments granted or conferred upon the University by the Territorial Laws; this grant of independent power was reconfirmed in the Minnesota Restructured Constitution of 1974. See "APPENDIX A—THE UNIVERSITY."

Under Minnesota law, the University operates as a public corporation. Management of the University is independent of other branches of State government. The Board of Regents, rather than the Legislature of the State of Minnesota (the "Legislature"), approves the budget submitted by the University administration. The University is, however, dependent upon the Legislature for substantial portions of its budget. See "APPENDIX A—THE UNIVERSITY—Financial Operations—*Nonoperating Revenues (Expenses)—State Appropriations.*"

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Series 2013C Bonds are special limited obligations of the University. Specified transfers expected to be made from the General Fund by the Commissioner pursuant to the Act are pledged pursuant to the State Supported Bond Order for the payment of the Series 2013C Bonds. Neither any other revenues or assets of the University, nor the full faith and credit of the University, are pledged for the principal or interest on the Series 2013C Bonds. The University has no taxing power. The Series 2013C Bonds are not an indebtedness or other obligation of the State, are not public debt of the State, and the full faith and credit and taxing powers of the State are not pledged for their payment or for any such annual transfers to the University. In the opinion of Bond Counsel such appropriations and transfers from the General Fund to the University do not require further State or other approval except as expressly provided in the Act. See "—The Biomedical Science Research Facilities Funding Program Act," "—The Biomedical Science Research Facilities Funding Program Act Agreement," "—Certain University Covenants" and "—Certain Risks."

The State Supported Bond Order establishes a Biomedical Science Research Facilities Funding Program Bonds Debt Service Account (the "Bond Account") and a Series 2013C Bonds Project Account (the "Project Account") as separate bookkeeping accounts on the records of the University. The State Supported Bond Order provides that transfers from the General Fund of the State pursuant to the Act shall be deposited by the University upon receipt into the Bond Account and that payments due on the Special Purpose Revenue Bonds to be issued thereunder (collectively, the "Bonds"), including the Series 2013C Bonds, shall be made from the Bond Account. Under the State Supported Bond Order, amounts credited to the Bond Account are pledged to the payment of principal of and interest on the Bonds, including the Series 2013C Bonds and any Additional Bonds to be issued thereunder. The State Supported Bond Order further provides that net proceeds of the Series 2013C Bonds shall be deposited upon receipt by the University in the Project Account and shall be applied to pay costs of issuance of the Series 2013C Bonds and costs of the Program projects as determined by the Treasurer of the University. Under the State Supported Bond Order, amounts credited to the Project Account are not pledged to pay principal of or interest on the Series 2013C Bonds. See "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE STATE SUPPORTED BOND ORDER."

The Biomedical Science Research Facilities Funding Program Act

The Act provides for annual appropriations from the General Fund for any period during which certain University bonds that were issued to fund costs of certain Biomedical Science Research Facilities Funding Program projects and are payable from transfers by the State of such appropriated funds ("State Transfers") remain outstanding. The availability of State Transfers is conditioned upon the financed Biomedical Science Research Facilities Funding Program projects having been certified as complying with certain funding requirements, including certification by the Board of Regents to the Commissioner of the annual payments of principal and interest required to service such bonds and of the actual amounts of annual State Transfers to be made by the State to the University to fund such annual principal and interest payments. Such funding requirements also include a certification by the Commissioner that the Board of Regents has approved the maximum cost of each project and complied with the requirement that the University pay at least twenty-five percent (25%) of the costs of each Program project from sources other than bonds that are payable from State Transfers and other than tuition revenues. The University expects to issue its General Obligation Taxable Bonds (University Supported Biomedical Science Research Facilities Funding Program) Series 2013D (the "Series 2013D Bonds") in the amount of $12,760,000 to provide funding for Program projects contemporaneously with the issuance of the Series 2013C Bonds. The Series 2013D Bonds are not payable from State Transfers and are issued by the University as a means of satisfying the requirement described in the immediately preceding sentence that the University pay at least twenty-five percent (25%) of the costs of each project that is to be financed in part with University bonds that are payable from State Transfers. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" and "PLAN OF FINANCING."

The Act limits the aggregate original principal amount of bonds issued to provide funding for all biomedical science research facilities funding projects that are payable from State Transfers to $219,000,000. The University has previously issued $111,400,000 Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) on September 30, 2010 (the "Series 2010A Bonds") and $52,458,000 Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) on October 13, 2011 (the "Series 2011B Bonds"). The Act also provides that no State Transfers may be made more than 25 years following certification by the Commissioner of the last of four projected biomedical science research facilities projects and limits the maximum annual amounts of such State Transfers as follows:

up to $14,825,000 in fiscal year 2014
up to $15,550,000 in each fiscal year thereafter.

Subject to such limitations, the Act provides that the Commissioner must make State Transfers to the University on July 15 of each year in the amount certified by the University and by the Commissioner, as the amount of the annual payments of principal and interest necessary to service each series of University bonds that are payable from State Transfers.

The Act contains no provision establishing any right of holders of the Bonds to require the Commissioner to make the specified State Transfers, permitting State Transfers that are made to be applied to pay debt service on the Bonds or limiting the ability of the State to amend or to revoke the Act or, by other legislative, executive or judicial action, to adversely affect the timely transfer of amounts appropriated by the Act and certified by the University in accordance with the requirements of the Act to be necessary to service any University Bonds. See "THE BIOMEDICAL SCIENCE RESEARCH FACILITIES FUNDING PROGRAM."

The Biomedical Science Research Facilities Funding Program Act Agreement

The University has entered into an agreement dated August 15, 2010 (the "Biomedical Science Research Facilities Funding Program Act Agreement" or the "State Agreement") with the State, acting by and through the Commissioner, addressing the implementation of the Act. The State Agreement provides for certification by the Commissioner that the University has complied with the requirements of the Act with respect to each Program project for which bonds are to be issued. The State Agreement also provides for certification by the University of the annual payments of principal and interest necessary to service the bonds for which State Transfers are to be made, in each case as required by the Act, and acknowledgment of such certification by the Commissioner. Such certification and acknowledgment are expected to be made with respect to the projects for which the Series 2013C Bonds are to be issued prior to their initial delivery.

The State Agreement further provides that the Commissioner shall make State Transfers, as required by the Act, by making an annual transfer on its books, to the account of the University, of the total amount of the applicable State Transfer and subsequently transferring to the University for deposit to the Bond Account, five business days prior to the due date of a payment of principal of or interest on any Series of Bonds that are payable from State Transfers, the amount of such payment. See "—General" and "—The Biomedical Science Research Facilities Funding Program Act." In addition, the Biomedical Science Research Facilities Funding Program Act Agreement includes a covenant of the State to provide certain continuing disclosure information. See "—Certain Risks," "AVAILABILITY OF STATE INFORMATION," and "CONTINUING DISCLOSURE."

Certain University Covenants

The State Supported Bond Order includes several covenants by the University that are intended to assure the timely availability of State Transfers to fund the timely payment of principal and interest when due on the Bonds, including: (i) to comply with the State Agreement and to take all such action, and to not omit to take any such action, on the part of the University necessary to assure full and timely receipt, in accordance with the Act and the State Agreement, of State Transfers with respect to the Bonds that are payable from State Transfers; and (ii) to deposit all State Transfers received by the University with respect to the Bonds to the Bond Account immediately upon receipt. See "—General," "—The Biomedical Science Research Facilities Funding Program Act," and "—The Biomedical Science Research Facilities Funding Program Act Agreement."

The University may defease some or all of the Series 2013C Bonds by depositing in escrow with a bank or trust company cash and defeasance obligations, the principal of, premium, if any, and interest on which when due will, without reinvestment, provide cash which will be, together with the cash, if any, deposited in escrow at the same time, sufficient to pay all principal and interest to become due on such Series 2013C Bonds to maturity or, in the case of Series 2013C Bonds that are subject to mandatory sinking fund redemption, the applicable mandatory redemption date for such Bonds. The University has covenanted in the State Supported Bond Order that prior to defeasing any Series 2013C Bonds it will obtain an opinion from a nationally recognized bond counsel to the effect that such a defeasance will not have an adverse effect on the exclusion from gross income of the interest on any Series 2013C Bonds for United States income tax purposes or from taxable net income of individuals, estates or trusts for Minnesota income tax purposes.

Certain Risks

The Act provides for annual State Transfers of funds from the General Fund to the University for payment of the Series 2013C Bonds, conditioned upon satisfaction of certain requirements by the University. The State Transfers constitute a standing appropriation that does not require any further action by the Legislature. However, pursuant to Minnesota law, a standing appropriation may be reduced or repealed entirely by the Legislature. The Legislature is prohibited from acting to bind any future Legislature.

The State Transfers are subject to unallotment under Minnesota Statutes, Section 16A.152. Article XI, Section 5 of the Minnesota Constitution requires a balanced budget for the State. Pursuant to such requirement, Minnesota law requires the Governor to submit a proposed State budget to the Legislature by the end of January of each odd-numbered year for that year and the ensuing even-numbered year (such years together, the "biennium"). On July 1 of each odd-numbered year, the Commissioner transfers to the Budget Reserve Account within the General Fund (the "Budget Reserve") any amounts specifically appropriated by law to such Budget Reserve. Pursuant to Minnesota Statutes, Section 16A.152, if the Commissioner determines that probable receipts for the General Fund will be less than anticipated, and that the amount available for the remainder of the biennium will be less than needed, the Commissioner, with the approval of the Governor, may use amounts in the Budget Reserve to balance the State budget. Section 16A.152 further permits the Commissioner, with the approval of the Governor, to "unallot" funds as follows:

> (a) An additional deficit shall, with the approval of the governor, and after consulting the legislative advisory commission, be made up by reducing unexpended allotments of any prior appropriation or transfer. Notwithstanding any other law to the contrary, the commissioner is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions.
>
> (b) If the commissioner determines that probable receipts for any other fund, appropriation, or item will be less than anticipated, and that the amount available for the remainder of the term of the appropriation or for any allotment period will be less than needed, the commissioner shall notify the agency concerned and then reduce the amount allotted or to be allotted so as to prevent a deficit.
>
> (c) In reducing allotments, the commissioner may consider other sources of revenue available to recipients of state appropriations and may apply allotment reductions based on all sources of revenue available.

During and after the legislative sessions, revenues are reforecasted to reflect legislative actions that have a direct impact on State revenues and changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner discovers that probable revenues will be less than anticipated, the Commissioner, with the approval of the Governor, is required to reduce allotments as necessary to balance expenditures and revenues forecast for the then current biennium. The University has several times experienced such reductions in recent fiscal years. The Governor also has the authority to request legislative actions to provide additional sources of revenue, but such requests do not relieve the Commissioner of his obligation to reduce allotments to State agencies. See "APPENDIX A—THE UNIVERSITY—Financial Operations —*State Appropriations.*"

In addition, State governmental shutdowns, resulting from delays in the budget process described above or other events, may delay State Transfers. The State experienced a temporary partial government shutdown during fiscal year 2012.

Any of: (i) a legislative reduction or repeal of the standing appropriation of State Transfers established by the Act; (ii) an unallotment of the State Transfers appropriated by the Act; or (iii) a partial government shutdown affecting the practical ability of the Commissioner to make transfers of State Transfers to the University could prevent the anticipated full and timely payment of interest and principal then due on the Series 2013C Bonds from State Transfers. In addition, prospective secondary market purchaser concerns that such an event might occur could materially and adversely affect the market price of the Series 2013C Bonds even if the event does not in fact occur. The Series 2013C Bonds are not an indebtedness or other obligation of the State, are not public debt of the State, and the full faith and credit of the State is not pledged for their payment or for any such annual transfers to the University. The Series 2013C Bonds do not constitute general obligations of the University and no asset or revenue of the University, other than State Transfers deposited to the credit of the Bond Account, is pledged to pay principal of or interest on the Series 2013C Bonds. See "—General," and "—The Biomedical Science Research Facilities Funding Program Act" and "—The Biomedical Science Research Facilities Funding Program Act Agreement."

ANNUAL STATE SUPPORTED PROGRAM BOND DEBT SERVICE REQUIREMENTS

The following table sets forth, for the current and each future Fiscal Year of the State ending June 30, the amounts to be required for payment of interest on and principal at maturity or mandatory redemption of all indebtedness of the University issued as state supported revenue bonds pursuant to the Program and payable from State Transfers (the "State Supported Program Bonds"). See "APPENDIX A — THE UNIVERSITY —Financial Operations—*Nonoperating Revenues (Expenses)—State Appropriations*" and "—Outstanding Indebtedness" and "APPENDIX B — AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 —Note 5 —Long-Term Debt."

Fiscal Year Ending June 30	Series 2010A Bonds Principal	Series 2010A Bonds Interest	Series 2011B Bonds Principal	Series 2011B Bonds Interest	Series2013C Bonds Principal	Series2013C Bonds Interest	Total
2014	$2,655,000	$5,114,025	$1,180,000	$2,541,450	-	-	$11,490,475
2015	2,780,000	4,992,050	1,225,000	2,493,350	$ 410,000	$ 2,021,909	13,922,309
2016	2,905,000	4,863,825	1,280,000	2,436,850	815,000	1,618,594	13,919,269
2017	3,055,000	4,714,825	1,350,000	2,371,100	845,000	1,589,469	13,925,394
2018	3,215,000	4,558,075	1,415,000	2,301,975	885,000	1,550,444	13,925,494
2019	3,375,000	4,393,325	1,490,000	2,229,350	930,000	1,505,069	13,922,744
2020	3,550,000	4,220,200	1,565,000	2,152,975	975,000	1,457,444	13,920,619
2021	3,715,000	4,057,150	1,640,000	2,081,050	1,025,000	1,407,444	13,925,644
2022	3,885,000	3,885,725	1,715,000	2,005,375	1,080,000	1,354,819	13,925,919
2023	4,085,000	3,686,475	1,800,000	1,917,500	1,135,000	1,299,444	13,923,419
2024	4,295,000	3,476,975	1,895,000	1,825,125	1,190,000	1,241,319	13,923,419
2025	4,515,000	3,256,725	1,990,000	1,728,000	1,255,000	1,180,194	13,924,919
2026	4,745,000	3,025,225	2,095,000	1,625,875	1,305,000	1,127,613	13,923,713
2027	4,960,000	2,811,400	2,200,000	1,518,500	1,350,000	1,083,625	13,923,525
2028	5,160,000	2,613,000	2,315,000	1,405,625	1,405,000	1,025,719	13,924,344
2029	5,370,000	2,402,400	2,430,000	1,287,000	1,480,000	953,594	13,922,994
2030	5,615,000	2,154,625	2,555,000	1,162,375	1,555,000	877,719	13,919,719
2031	5,905,000	1,866,625	2,690,000	1,031,250	1,635,000	797,969	13,925,844
2032	6,205,000	1,563,875	2,825,000	893,375	1,710,000	722,894	13,920,144
2033	6,525,000	1,245,625	2,970,000	748,500	1,780,000	651,981	13,921,106
2034	6,860,000	911,000	3,125,000	596,125	1,855,000	577,009	13,924,134
2035	7,210,000	559,250	3,280,000	436,000	1,945,000	490,125	13,920,375
2036	7,580,000	189,500	3,450,000	267,750	2,045,000	390,375	13,922,625
2037	-	-	3,630,000	90,750	2,150,000	285,500	6,156,250
2038	-	-	-	-	2,260,000	175,250	2,435,250
2039	-	-	-	-	2,375,000	59,375	2,434,375
Total	$108,165,000	$70,561,900	$52,110,000	$37,147,225	$35,395,000	$25,444,894	$328,824,019

THE BIOMEDICAL SCIENCE RESEARCH FACILITIES FUNDING PROGRAM

Net proceeds of the Series 2013C Bonds are expected to be applied by the University to fund a portion of the costs of constructing one or more projects currently expected to be completed by the University as part of the Program for the renovation and expansion of its Biomedical Discovery District. The Series 2013C Bonds constitute a component of the third financing by the University for such purpose. The University projects the total costs of Biomedical Discovery District construction that will be funded as part of this Program to be approximately $292,000,000, of which approximately $219,000,000 is expected to be funded from the proceeds of the Series 2013C Bonds and other previously issued State Supported Program Bonds, and expects that the proceeds of such special purpose revenue bonds, together with the proceeds of the Series 2013D Bonds and of other previously issued general obligation bonds payable from University funds, will be sufficient to fund the costs of all currently anticipated Program projects to an extent sufficient to permit these projects to be placed in service. The University expects that construction of Program projects will be completed during 2015, but reserves the right to fund additional improvements to its Biomedical Discovery District from all sources available to it. These projections are preliminary and remain subject to change. The University does not, however, expect any change in the projected total Program costs to affect its ability to complete its Biomedical Science Research Facilities Funding Program. See "PLAN OF FINANCING," "APPENDIX B—AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE UNIVERSITY AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011—Note 5—Long-Term Debt" and "APPENDIX F—THE UNIVERSITY'S BIOMEDICAL DISCOVERY DISTRICT AND THE BIOMEDICAL SCIENCE RESEARCH FACILITIES FUNDING PROGRAM."

PLAN OF FINANCING

The Series 2013C Bonds are to be issued by the University pursuant to the Act to fund a portion of the costs of construction and completion, as part of the Program, of a new building devoted to research in microbiology and associated infrastructure and to reimburse the University for certain Program costs that were funded by the University on an interim basis. The University currently expects to issue $12,760,000 Series 2013D Bonds contemporaneously with the issuance of the Series 2013C Bonds to provide further funding for these projects.

USE OF PROCEEDS

The net proceeds to be received by the University from the sale of the Series 2013C Bonds will be used for certain costs of the Program projects, including the reimbursement of the University for certain amounts previously expended by the University in connection with Program projects, and to pay certain costs of issuance of the Series 2013C Bonds. The University reserves the right to apply a portion of such net proceeds to pay capitalized interest on the Series 2013C Bonds.

DESCRIPTION OF THE SERIES 2013C BONDS

General

The Series 2013C Bonds will be issued as Additional Bonds under the State Supported Bond Order. The Series 2013C Bonds are special limited obligations of the University. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS." The Series 2013C Bonds will be dated as of the date of initial delivery of the Series 2013C Bonds under the State Supported Bond Order. The Series 2013C Bonds will mature in the respective amounts and on the respective dates, and will bear interest from their date of initial delivery, at the respective rates per annum, as set forth on the inside cover page of this Official Statement. Interest on the Series 2013C Bonds will be initially payable on August 1, 2014 and semiannually thereafter on February 1 and August 1 of each year. Interest accrued on the Series 2013C Bonds shall be computed on the basis of a 360-day year, consisting of twelve 30-day months.

The Series 2013C Bonds will be initially issued as fully registered Series 2013C Bonds without coupons in denominations of $5,000 or any integral multiple thereof (the "Authorized Denominations"). No service charge will be made for any transfer or exchange of the Series 2013C Bonds, but the University may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The Series 2013C Bonds, when issued, will be registered in the name of Cede & Co., as nominee for DTC. Payment of principal of and interest on the Series 2013C Bonds will be made directly to DTC or its nominee, Cede & Co., by U.S. Bank National Association, St. Paul, Minnesota, or its successor, as Paying Agent (the "Paying Agent"). See "—Book-Entry Only System" and "—Paying Agent." If the Series 2013C Bonds are not in a book-entry only system, payment of principal of and interest on the Series 2013C Bonds will be made directly to Bond owners as provided in the State Supported Bond Order and summarized in "APPENDIX C—SUMMARY OF CERTAIN PROVISIONS OF THE STATE SUPPORTED BOND ORDER—Procedures for Payment of Principal and Interest on Bonds."

Redemption

Optional Redemption. The Series 2013C Bonds maturing on or after August 1, 2024 are subject to optional redemption prior to their maturity at the option of the University, in whole or in part, at any time on or after August 1, 2023, in any order of maturity and any principal amount (in Authorized Denominations) within a maturity as designated by the University, at a redemption price of par plus accrued interest.

Mandatory Sinking Fund Redemption. Series 2013C Bonds maturing on August 1, 2038 are subject to mandatory sinking fund redemption in part (in Authorized Denominations), prior to their scheduled maturity, from sinking fund installments at a price of par plus accrued and unpaid interest to the date of redemption, on such dates and in such amounts as are set forth below:

Dates	Amounts
August 1, 2034	$1,945,000
August 1, 2035	2,045,000
August 1, 2036	2,150,000
August 1, 2037	2,260,000
August 1, 2038†	2,375,000

†Stated maturity.

If any Series 2013C Bonds maturing on August 1, 2038 are purchased by the University and presented to the Paying Agent for cancellation, or redeemed or called for redemption pursuant to the optional redemption provisions set forth above, the principal amount of Series 2013C Bonds of the same stated maturity subject to mandatory sinking fund redemption under the terms of the State Supported Bond Order following such purchase and cancellation, redemption or call for optional redemption shall be reduced by an amount (in Authorized Denominations) specified with respect to each such date by the University, but the aggregate principal amount of such reduction may not exceed the aggregate principal amount of the Series 2013C Bonds maturing on August 1, 2038 so purchased and cancelled, redeemed or called for redemption. If the University fails to specify the amount of such reductions, the principal amount of Series 2013C Bonds of the same stated maturity subject to mandatory sinking fund redemption on each such date under the State Supported Bond Order shall be reduced by applying the principal amount of the Series 2013C Bonds of the same stated maturity so purchased, redeemed or called for redemption as a credit against the amounts required to be redeemed by mandatory sinking fund redemption in inverse order of their due dates.

Notice of Redemption. The State Supported Bond Order requires the Paying Agent, in the name of the University, to give notice by mail, postage prepaid, to the Bondowners of all Series 2013C Bonds to be redeemed, at the registered addresses appearing in the registration books kept for such purpose, at least 30 days, but not more than 45 days, prior to the redemption date for Series 2013C Bonds. Each notice of redemption of the Series 2013C Bonds will identify the Series 2013C Bonds or portions thereof to be redeemed and will state, among other things, the redemption date that the Series 2013C Bonds will be redeemed at the principal corporate trust office of the Paying Agent and that on the redemption date the redemption price shall become due and payable on each such Series 2013C Bond or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after such date. The failure of a Bondowner to receive notice by mailing or any defect in that notice regarding any Series 2013C Bond will not affect the validity of the proceedings for the redemption of the Series 2013C Bonds.

In addition to the foregoing notice, further notice will be given by the Paying Agent to certain registered securities depositories and information services as provided in the State Supported Bond Order, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as prescribed in the State Supported Bond Order and summarized above in the preceding paragraph.

Selection of Series 2013C Bonds to Be Redeemed: Partial Redemption. If fewer than all of the Series 2013C Bonds of the same stated maturity and interest rate are to be redeemed, the particular Series 2013C Bonds to be called for redemption will be selected by lot, by the Paying Agent. In the case of a partial redemption of Series 2013C Bonds by lot, each unit of face value of principal thereof equal to the minimum Authorized Denomination thereof (and, with respect to any registered owner, no more than one unit of face value of principal thereof in excess of such minimum Authorized Denomination, but less than twice such minimum Authorized Denomination) (a "Unit") will be treated as though it were a separate Series 2013C Bond in the amount of such Unit. If it is determined that one or more, but not all, of the Units represented by a Series 2013C Bond are to be called for redemption, upon notice of redemption of a Unit or Units of Series 2013C Bonds, the owner or registered owner of that Series 2013C Bond must surrender the Series 2013C Bond to the Paying Agent: (i) for payment of the redemption price of the Unit or Units of Series 2013C Bonds called for redemption; and (ii) for issuance, without charge to the owner or registered owner thereof, of a new Series 2013C Bond or Series 2013C Bonds, aggregating a principal amount equal to the unmatured and unredeemed portion of the Series 2013C Bond surrendered.

Book-Entry Only System

The description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2013C Bonds, payments of principal of and interest on the Series 2013C Bonds to DTC, its nominee, Direct Participants (defined herein), Indirect Participants (defined herein and along with Direct Participants, "Participants"), or Beneficial Owners (defined below), confirmation and transfer of beneficial ownership interests in the Series 2013C Bonds and debt-related transactions by and between DTC, Participants and Beneficial Owners has been made available to issuers of bonds for which DTC acts as securities depository by DTC for inclusion in disclosure documents generally.

DTC will act as securities depository for the Series 2013C Bonds. The Series 2013C Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2013C Bond certificate will be issued for each maturity of the Series 2013C Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2013C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013C Bonds on DTC's records. The ownership interest of each actual purchaser of each of the Series 2013C Bonds ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013C Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013C Bonds, unless use of the book-entry system for the Series 2013C Bonds is discontinued.**

To facilitate subsequent transfers, all the Series 2013C Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2013C Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013C Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2013C Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013C Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the University as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013C Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption premium, if any, and interest payments on the Series 2013C Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the University, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, or the University, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the University, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013C Bonds at any time by giving reasonable notice to the University. Under such circumstances, if a successor depository is not obtained, the Series 2013C Bond certificates are required to be printed and delivered.

The University may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2013C Bond certificates will be printed and delivered to DTC.

The foregoing information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the University believes to be reliable, but the University takes no responsibility for the accuracy thereof.

DTC may charge the Direct Participants a sum sufficient to cover any tax, fee or other governmental charge that may be imposed for every transfer and exchange of a beneficial interest in the Series 2013C Bonds, and the Direct Participants may seek reimbursement therefor from the Beneficial Owners.

NEITHER THE UNIVERSITY NOR THE STATE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT, (2) THE PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNERS, IN RESPECT OF THE PRINCIPAL OF OR INTEREST ON THE SERIES 2013C BONDS, (3) THE DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNERS, THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE STATE SUPPORTED BOND ORDER, OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE REGISTERED HOLDER INCLUDING THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO AN OMNIBUS PROXY.

So long as the Series 2013C Bonds are held by DTC under a book-entry only system, the University will send any notices with respect to the Series 2013C Bonds required or permitted to be given under the State Supported Bond Order only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Indirect Participant or any Beneficial Owner of any such notice and its content or effect will not affect the validity of any action premised on such notice.

The University may enter into amendments to the agreement with DTC, or successor agreements with a successor securities depository, relating to the book-entry system to be maintained with respect to the Series 2013C Bonds without the consent of Beneficial Owners or Holders.

If DTC discontinues providing its services, and the University has not entered into an agreement with another securities depository, or the University determines that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners and decides to discontinue the use of a system of book-entry transfers, the Series 2013C Bond certificates are required to be delivered by the University to the Beneficial Owners. A Beneficial Owner will become the registered owner of the Series 2013C Bonds upon the registration of certificates held in the Beneficial Owner's name.

Paying Agent

U.S. Bank National Association, St. Paul, Minnesota, will initially act as Paying Agent for the Series 2013C Bonds. The University reserves the right to remove any Paying Agent upon 30 days' notice and upon appointment of a successor Paying Agent.

The State Supported Bond Order does not obligate the Paying Agent to exercise certain responsibilities that may be exercised by trustees in connection with certain other debt offerings. Among the responsibilities that may be exercised by a trustee in connection with certain other debt offerings that are not to be exercised by the Paying Agent under the State Supported Bond Order are actions in connection with a failure by the University to make any payment or perform any other action required by the State Supported Bond Order. Under the State Supported Bond Order, the Paying Agent will act solely as the agent of the University and will not assume any relationship of trust with the Holders of the Series 2013C Bonds except with respect to funds held by it for the payment of principal of and interest on the Series 2013C Bonds.

The State Supported Bond Order provides that any corporation resulting from any merger, conversion or consolidation to which the Paying Agent is a party shall be the successor Paying Agent without the execution or filing of any paper or any further act.

LITIGATION

There is no controversy or litigation of any nature now pending or, to the knowledge of the State or of the University, threatened, either contesting or affecting the validity of the Act or of the State Agreement, the authority of the Commissioner or the University to enter into the State Agreement or of the Commissioner to make transfers from the General Fund, in accordance with the State Agreement, of amounts appropriated under the Act or seeking to restrain or enjoin such transfers by the Commissioner.

There is no controversy or litigation of any nature now pending or, to the knowledge of the University, threatened, restraining or enjoining the offering of the Series 2013C Bonds or in any way contesting or affecting the validity of the Series 2013C Bonds or the pledge by the University pursuant to the State Supported Bond Order of the transfers expected to be made by the Commissioner from the General Fund to the University pursuant to the Act or contesting or affecting any proceedings of the University with respect to the offering thereof. Except as described in "APPENDIX A—THE UNIVERSITY—Litigation" and "APPENDIX B—AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE UNIVERSITY AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011—Note 8 to the Audited Consolidated Financial Statements," there is no other controversy or litigation of any nature which the University believes, individually or in combination, may have a material adverse effect upon the University's financial condition taken as a whole.

TAX EXEMPTION

Tax Exemption

It is the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the University with certain covenants contained in the State Supported Bond Order and other documents executed in connection with the issuance of the Series 2013C Bonds (the "Tax Covenants"), that interest to be paid on the Series 2013C Bonds (a) is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes; (b) is included in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) is not an item of tax preference included in alternative minimum taxable income for purposes of the federal alternative minimum tax or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and (d) is included in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal alternative minimum tax. For a discussion of related tax matters, see "RELATED TAX MATTERS" herein.

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements that must be met after the issuance of the Series 2013C Bonds in order that interest on the Series 2013C Bonds be and remain excludable from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Series 2013C Bond proceeds and the facilities financed with such proceeds; restrictions on the investment of Series 2013C Bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements may cause interest on the Series 2013C Bonds to become included in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Compliance with the Tax Covenants will satisfy the current requirements of the Code with respect to exemption of interest on the Series 2013C Bonds. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Series 2013C Bonds becomes included in federal gross income or in Minnesota taxable net income.

The form of approving legal opinion to be issued by Dorsey & Whitney LLP with respect to the Series 2013C Bonds is set forth in APPENDIX D to this Official Statement.

Bond Premium

Certain maturities of the Series 2013C Bonds are being issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bond owners who acquire

Series 2013C Bonds at a premium must, from time to time, reduce their federal and Minnesota tax bases for the Series 2013C Bonds for purposes of determining gain or loss on the sale or payment of such Series 2013C Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a Bond owner's constant yield to maturity or to certain call dates with semiannual compounding. Bond owners who acquire Series 2013C Bonds at a premium might recognize taxable gain upon sale of the Series 2013C Bonds, even if such Series 2013C Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bond owners who acquire Series 2013C Bonds at a premium should consult their tax advisors concerning the calculation of bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling Series 2013C Bonds acquired at a premium.

Original Issue Discount

The initial public offering prices of certain maturities of the Series 2013C Bonds are less than the principal amounts payable at maturity (such bonds, if any, collectively, the "Discount Bonds"). The difference between the initial public offering price of each maturity of the Discount Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price at which a substantial amount of such maturity is sold to the public (the "Issue Price")), and the principal amount payable at maturity of such Discount Bonds will be "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under section 1288 of the Code is excluded from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under section 1288 is added to the owner's federal and Minnesota tax basis in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under section 1288 pursuant to a constant yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Bonds, over (2) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Bond. If such excess is greater than the amount of remaining original issue discount, the Code's basis reduction rules for amortizable bond premium might result in taxable gain upon sale, redemption or maturity of the Bonds, even if the Bonds are sold, redeemed or retired for an amount equal to or less than their cost.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

Proposed Legislation and Other Matters

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, could adversely affect the tax-exempt status of interest on the Series 2013C Bonds under federal or state law or otherwise prevent beneficial owners of the Series 2013C Bonds from realizing the full current benefit of the tax treatment of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, enacted, or implemented) and such decisions could adversely affect the market price or marketability of the

Series 2013C Bonds. For example, on several occasions, President Obama has proposed limiting the value of the exclusion of interest on certain state and local bonds for taxpayers with incomes above certain levels.

Prospective purchasers of the Series 2013C Bonds should consult their own tax advisors regarding the foregoing matters.

RELATED TAX MATTERS

Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and Railroad Retirement benefits to take interest on the Series 2013C Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Series 2013C Bonds, may be subject to taxation under Section 1375 of the Code, and corresponding provisions of Minnesota law, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2013C Bonds, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. Indebtedness may be allocated to the Series 2013C Bonds for this purpose even though not directly traceable to the purchase of the Series 2013C Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Series 2013C Bonds. In the case of a financial institution, no deduction is allowed under the Code for that portion of the Bond owner's interest expense which is allocable to interest on the Series 2013C Bonds within the meaning of Section 265(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to 15 percent of the interest on the Series 2013C Bonds that is received or accrued during the taxable year. Interest on the Series 2013C Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code, and is included in net investment income of foreign insurance companies under Section 842(b) of the Code.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE SERIES 2013C BONDS OR RECEIPT OF INTEREST ON THE SERIES 2013C BONDS. PROSPECTIVE PURCHASERS OR BOND OWNERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO APPLICABLE FEDERAL, STATE AND LOCAL TAX RULES.

RATINGS

The Series 2013C Bonds have been assigned ratings by Moody's Investors Service ("Moody's") and by Standard & Poor's Ratings Services ("Standard & Poor's"), respectively, as set forth on the cover of this Official Statement.

Such ratings reflect only the views of Moody's or Standard & Poor's, as the case may be, and do not constitute a recommendation to buy, sell or hold the Series 2013C Bonds. There is no assurance that any such rating will be retained for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's or Standard & Poor's, as the case may be, if, in their respective judgment, circumstances so warrant. Any such downward change in, or withdrawal entirely of, a rating may have an adverse effect on the marketability or market price of the Series 2013C Bonds. Both Moody's and Standard & Poor's currently assign a stable outlook to the Series 2013C Bonds.

UNDERWRITING

The Series 2013C Bonds are being purchased by Barclays Capital Inc., as representative of the Underwriters listed on the front cover of this Official Statement (collectively, the "Underwriters"). The Underwriters have agreed, subject to the terms and conditions set forth in the Contract of Purchase between the University and the Underwriters, to purchase the Series 2013C Bonds from the University at a purchase price of $38,041,814.17 (representing the aggregate principal amount of the Series 2013C Bonds, reflecting a net original issuance premium of $2,830,863.90, and less an underwriters' discount of $184,049.73). The Contract of Purchase provides that the obligation of the Underwriters to purchase the Series 2013C Bonds is subject to certain conditions precedent.

The University has been advised by the Underwriters that they propose initially to offer the Series 2013C Bonds to the public at prices not in excess of the initial public offering prices, or at yields not below the yields, set forth on the inside cover page of this Official Statement. The Series 2013C Bonds may be offered and sold to certain dealers (including the Underwriters) at prices lower than such public offering prices, and such initial public offering prices may be changed from time to time by the Underwriters.

The University has been advised by the Underwriters that they presently intend to make a market in the Series 2013C Bonds, although the Underwriters are not obligated to do so and may discontinue any market-making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Series 2013C Bonds, or that an active trading market for the Series 2013C Bonds will develop. If an active public market does not develop, the market price and liquidity of the Series 2013C Bonds may be adversely affected. If an Underwriter creates a short position in the Series 2013C Bonds in connection with the offering (i.e., if it sells more Series 2013C Bonds than are set forth on the inside cover page of this Official Statement), that Underwriter may reduce that short position by purchasing Series 2013C Bonds in the open market. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might otherwise be in the absence of such purchases. Neither the University nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Series 2013C Bonds. In addition, neither the University nor the Underwriters make any representation that an Underwriter will engage in such transactions or that such transactions, once commenced, will not be discontinued without notice.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 2013C Bonds are subject at the date of delivery to the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel. Such opinion will be available on the date of delivery of the Series 2013C Bonds in substantially the form attached hereto as APPENDIX D. Certain other legal matters will be passed upon for the University by its General Counsel, for the State by the State Attorney General and for the Underwriters by Hawkins Delafield & Wood LLP, New York, New York.

FINANCIAL ADVISOR

Public Financial Management, Inc. ("PFM") has acted as an independent financial advisor to the University in connection with the issuance of the Series 2013C Bonds. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing securities.

INDEPENDENT AUDITORS

The consolidated financial statements of the University as of and for the years ended June 30, 2012 and 2011, included in APPENDIX B, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein.

AVAILABILITY OF STATE INFORMATION

The Series 2013C Bonds are special limited obligations of the University. Specified transfers expected to be made by the State pursuant to the Act are pledged pursuant to the State Supported Bond Order for the payment of the Series 2013C Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS." Potential purchasers and owners of the Series 2013C Bonds are advised to consider the likelihood of their full and timely receipt of principal and interest payments on the Series 2013C Bonds when due on the basis of the financial condition of the State, rather than that of the University. Basic financial statements for the State for the Fiscal Year ended June 30, 2012, as well as certain additional information concerning the State are included in the Official Statement of the State of Minnesota dated October 24, 2013 (the "State Official Statement") with respect to its $769,760,000 General Obligation State Bonds. Such additional information addresses the availability of the State's

Comprehensive Annual Financial Reports for Fiscal Year 2012 and prior years. The basic financial statements for the State and additional information concerning the State included in the State Official Statement is hereby incorporated by reference herein. The State has, in recent years, issued its General Obligation State Bonds no less frequently than annually, and has authorized the distribution of its Official Statements with respect to such General Obligation State Bonds containing similar information concerning the State. The State Official Statement and Official Statements of the State prepared in connection with certain previously issued General Obligation State Bonds are currently available on the Minnesota Management & Budget website (www.mmb.state.mn.us/fin/bonds) and from the Municipal Securities Rulemaking Board. See "APPENDIX E—SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE." The State most recently released its February economic forecast prepared by Minnesota Department of Management and Budget ("MMB") on February 28, 2013. On October 10, 2013, MMB released the October 2013 Economic Update. Information concerning such forecasts and updates, as well as certain 2013 Legislative Session(s) documentation can be found on the website at www.mmb.state.mn.us.

Any amendment or supplement to such basic financial statements or such additional information, and any subsequent financial statements published by the State and made publicly available prior to the termination of the initial offering of the Series 2013C Bonds offered hereby, shall be deemed to be incorporated by reference in this Official Statement from the date made publicly available. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently publicly available document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. See "APPENDIX E — SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE."

AVAILABILITY OF UNIVERSITY INFORMATION

The Series 2013C Bonds are special limited obligations of the University. Specified transfers expected to be made by the State pursuant to the Act are pledged pursuant to the State Supported Bond Order for the payment of the Series 2013C Bonds. Neither any other University revenues or assets, nor the full faith and credit of the University is pledged for the payment of the principal of or interest on the Series 2013C Bonds. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS" and "AVAILABILITY OF STATE INFORMATION." Prospective purchasers and owners of the Series 2013C Bonds are advised to consider the information contained herein in "APPENDIX A—THE UNIVERSITY" and in "APPENDIX B—AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE UNIVERSITY AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011" in connection with the University's capacity to complete the Biomedical Science Research Facilities Funding Program projects and for general informational purposes concerning the University rather than as directly affecting the likelihood of their full and timely receipt of principal and interest payments on the Series 2013C Bonds when due. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS."

The University's current policy is to make its current annual report, which includes the University's Audited Consolidated Financial Statements as of and for the most recent years ending June 30, publicly available online at http://www.finsys.umn.edu/controller/annual_reports.html. Any amendment or supplement to the University's Audited Consolidated Financial Statements as of and for the years ended June 30, 2012 and 2011 (the "Financial Report"), and any subsequent Financial Report published by the University and made publicly available prior to the termination of the initial offering of the Series 2013C Bonds offered hereby, shall be deemed to be incorporated by reference in this Official Statement from the date made publicly available. Any statement contained in any document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently publicly available document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. The University does not currently intend to provide any additional information to investors. See "CONTINUING DISCLOSURE."

CONTINUING DISCLOSURE

The University has covenanted for the benefit of the Owners and Beneficial Owners of the Series 2013C Bonds to provide certain financial information and operating data relating to the State and to the University by not later than the December 31 following the end of the University's Fiscal Year (presently June 30) (the "Annual Report"), commencing with the report for the 2013 Fiscal Year, and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the University under the Electronic Municipal Market Access System ("EMMA") created by the Municipal Securities Rulemaking Board. Any notice of certain enumerated events will also be filed under EMMA. The specific nature of the information to be contained in the Annual Report or the notices of certain enumerated events is summarized under the caption "APPENDIX E—SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriters in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule"). A failure by the University to provide any information required thereunder shall not constitute an event of default under the State Supported Bond Order.

The University is in full compliance with its obligations under all such continuing disclosure covenants during the past five years. The University did not file an event notice in connection with a 2010 change of the long-term rating assigned by Moody's to its general obligation debt rating from "Aa2" to "Aa1" based on Moody's statement, in its March 2010 Special Comment announcing the recalibration of its long-term municipal ratings to its global ratings scale, that such changes did not reflect an improvement in credit quality or a change in its credit opinion for rated municipal debt issuers.

MISCELLANEOUS

The references herein to the Biomedical Science Research Facilities Funding Program Act, the Biomedical Science Research Facilities Funding Program Act Agreement and the State Supported Bond Order and other materials are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and, for full and complete statements of such provisions, reference is made to such instruments and other materials, draft copies of which during the period of offering are on file at the principal offices of the Underwriters and executed counterparts of which will be on file at the administrative offices of the Treasurer of the University following the delivery of the Series 2013C Bonds.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

REGENTS OF THE UNIVERSITY OF MINNESOTA

By: /s/ Eric W. Kaler
President

APPENDIX A

THE UNIVERSITY

Introduction

Regents of the University of Minnesota (the "University") was established in 1851 pursuant to Chapter 3 of the Territorial Laws of 1851. Under the Territorial Laws, the government of the University was vested in the Board of Regents (the "Board of Regents"). Article 8, Section 3, of the Constitution of the State of Minnesota, adopted on October 13, 1857, perpetuated all of the rights, immunities, franchises, and endowments granted or conferred upon the University by the Territorial Laws; this grant of independent power was reconfirmed in the Minnesota Restructured Constitution of 1974.

Under Minnesota law, the University operates as a public corporation. Management of the University is independent of other branches of State government. The Board of Regents, rather than the Legislature of the State of Minnesota (the "Legislature"), approves the budget submitted by the University administration. The University is, however, dependent upon the Legislature for substantial portions of its budget. See "Financial Operations—*Nonoperating Revenues (Expenses)—State Appropriations*" herein. The Internal Revenue Service (the "IRS"), at the University's request, has ruled that the University is an "integral part" of the State of Minnesota for federal income tax purposes.

Board of Regents

The members of the Board of Regents are elected biennially to six year terms by a joint convention of both branches of the Legislature. By statute, one regent is elected from each of the eight congressional districts of Minnesota, and the other four regents are elected at large. Upon the occurrence of a vacancy on the Board of Regents when the Legislature is not in session, the Governor of the State of Minnesota is authorized to fill such vacancy by appointment. The members of the Board of Regents serve without pay but are compensated for expenses incurred directly in the performance of their duties.

The table below identifies the current members of the Board of Regents and sets forth each regent's city of residence, the date first elected or appointed, the date the current term expires and the district represented.

Current Members

Name	City of Residence	First Elected or Appointed	Expiration of Term	District Represented
Richard B. Beeson, Chair	St. Paul	2009	2015	District #4
Dean E. Johnson, Vice Chair	Wilmar	2007	2019	At Large
Clyde E. Allen, Jr.	Moorhead	2003	2015	District #7
Laura M. Brod	New Prague	2011	2017	At Large
Linda A. Cohen	Minnetonka	2007	2019	At Large
Thomas W. Devine	Chanhassen	2012	2017	District #2
John R. Frobenius	St. Cloud	2003	2015	District #6
David M. Larson	Wayzata	2005	2017	District #3
Peggy E. Lucas	Minneapolis	2013	2019	District #5
David J. McMillan	Duluth	2011	2017	District #8
Abdul M. Omari	Minneapolis	2013	2019	At Large
Patricia S. Simmons	Rochester	2003	2015	District #1

Administration

The following table identifies certain administrative officers of the University as of September 1, 2013:

Principal Administrative Officers

Name	Position
Eric W. Kaler	President
Karen Hanson	Senior Vice President for Academic Affairs and Provost
Richard H. Pfutzenreuter	Vice President and Chief Financial Officer/Treasurer
Scott Studham	Vice President and Chief Information Officer
Katrice Albert	Vice President for Equity and Diversity
Aaron L. Friedman	Vice President for Health Sciences and Dean of the Medical School
Kathryn F. Brown	Vice President for Human Resources
Brian Herman	Vice President for Research
Pamela Wheelock	Vice President for University Services
William P. Donohue	General Counsel
Julie Tonneson	Associate Vice President for Budget & Finance
Michael D. Volna	Associate Vice President for Finance and Controller
Gail L. Klatt	Associate Vice President for Internal Audit
Stuart H. Mason	Associate Vice President for Investments & Banking and Chief Investment Officer

The biographies of these officers follow:

Eric W. Kaler. Dr. Kaler became the sixteenth President of the University of Minnesota on July 1, 2011. Previously, he was the Provost and Senior Vice President for Academic Affairs at Stony Brook University and Vice President for Brookhaven National Laboratory Affairs in Stony Brook, New York.

Dr. Kaler joined the faculty of the Department of Chemical Engineering at the University of Washington in 1982. In 1989 he moved to the Department of Chemical Engineering at the University of Delaware as an associate professor. He became a professor in 1991 at Delaware, department chair in 1996, and was chosen Dean of the

College of Engineering in 2000. His research interests are in the areas of surfactant and colloid science, statistical mechanics, and thermodynamics. He is a fellow of the American Association for the Advancement of Science and of the American Chemical Society. He was elected to the National Academy of Engineering in 2010, and named a Fellow of the National Academy of Inventors in 2013. He holds 10 patents.

Dr. Kaler earned a B.S. degree, with honors, in Chemical Engineering from the California Institute of Technology in 1978 and a Ph.D. in Chemical Engineering from the University of Minnesota in 1982.

Karen Hanson. Dr. Hanson began her post as Senior Vice President for Academic Affairs and Provost on February 1, 2012. She served as Provost of the Bloomington campus and Executive Vice President of Indiana University from 2007 to January 2012. Prior to being appointed provost of the Bloomington campus, she served as dean of the Hutton Honors College from 2002 to 2007 and chaired the Department of Philosophy from 1997 to 2002. She has won numerous campus and all-university teaching awards, along with a Lilly Fellowship and a number of research grants.

Dr. Hanson received a B.A. in Philosophy and Mathematics, summa cum laude, from the University of Minnesota in 1970. She received her Ph.D., and A.M., in Philosophy from Harvard University in 1980. She is a co-editor of *Romantic Revolutions: Criticism and Theory*, and the author of *The Self Imagined: Philosophical Reflections on the Social Character of Psyche*, as well as numerous essays, articles, and book chapters.

Richard H. Pfutzenreuter. Mr. Pfutzenreuter was appointed Vice President in March 2004, Chief Financial Officer (CFO) in July 1998, and Treasurer in February 2000. He served as Associate Vice President for Budget and Finance from 1992 to 2004. University offices reporting directly to him include the Controller's Office, the University Tax Management Office, University Budget and Finance, the Office of Investments & Banking, and the Office of Real Estate. In his capacity as CFO, Mr. Pfutzenreuter is a member of the President's Senior Leadership Group and the administration's representative to the Finance and Operations Committee of the Board of Regents.

Mr. Pfutzenreuter received his B.A. from Hamline University in 1974. Subsequently, he held several positions with the State of Minnesota, including Fiscal Staff Director of the Ways & Means Committee, Minnesota House of Representatives, from 1986 to 1992; Fiscal Analyst for the Minnesota House of Representatives from 1981 to 1985; and Transportation Planner/Budget Analyst and Management Analyst in the Minnesota Department of Transportation from 1975 to 1981. In November 2010, Mr. Pfutzenreuter was named CFO of the Year in the category of Large Civic/Educational Nonprofits by the Minneapolis/St. Paul Business Journal.

Scott Studham. Mr. Studham was named Vice President and Chief Information Officer (CIO) for the University of Minnesota in February 2012. He is tasked with ensuring strategic and operational excellence of both academic and administrative information technology systems. Previously, Mr. Studham was CIO at the University of Tennessee and Oak Ridge National Laboratory. He also served as chief technology officer for the National Center for Computational Sciences which is host to the world's fastest computer.

Mr. Studham has a bachelor's degree in chemistry from Washington State University and a master's degree in business administration from the University of Tennessee. Six times in his career, he has been the program manager or architect for one of the world's top ten supercomputers. He won the Institute of Electrical and Electronics Engineers (IEEE) Supercomputing Conference StorCloud Challenge award for the most innovative use of storage in 2004 and in 2003 was named the Computerworld Honors Laureate, the Smithsonian Institute's award for innovative technologies.

Katrice Albert. The Vice President for Equity and Diversity provides leadership for strategic positioning efforts in the area of equity and diversity, including the continuing implementation of a diversity plan, for the University of Minnesota system and also provides leadership on issues relating to faculty, staff, and student diversity on the Twin Cities campus, including the administrative oversight of departments that provide direct service to its diverse population.

Dr. Albert began her tenure as Vice President for Equity and Diversity in June 2013. She came to the University of Minnesota from Louisiana State University, where she served since 2005 as the institution's chief diversity officer. Previously, she held positions at Boston University and Auburn University. Dr. Albert holds a Ph.D. in Counseling Psychology from Auburn University, a Master of Science in Counseling Psychology from the University of Southern Mississippi, and a Bachelor of Science in Psychology from Xavier University of Louisiana. She has also written, presented, and consulted on issues of cultural competence, corporate social responsibility, educational and workforce diversity, gender and the complexities of diverse populations.

Aaron L. Friedman. Dr. Friedman became Vice President for Health Sciences and Dean of the Medical School in January 2011. He is a Professor of Pediatrics, having been Head of the Department of Pediatrics and holder of the Ruben-Bentson Chair in Pediatrics at the University of Minnesota Medical School since 2008. He is also a member of the University of Minnesota Amplatz Children's Hospital Philanthropic Board and Executive Committee and the Board of Directors of the University of Minnesota Physicians. He was Chair of the Department of Pediatrics at Brown Medical School (Providence, Rhode Island, 2004-2008) and at the University of Wisconsin-Madison (1996-2004). While at Wisconsin, Dr. Friedman also chaired the University Committee, the primary all-University faculty governance committee.

Dr. Friedman is a member of the Board of Directors of the American Board of Pediatrics, having served as chair in 2008. He also served as chair of the Pediatric Leadership Alliance working group through the American Academy of Pediatrics (AAP) from 1997-2004, and as chair of the AAP Committee on Pediatric Workforce from 2006-2007. Dr. Friedman's research and scholarly work centers on pediatric kidney disease. He chaired the steering committee for an NIH-sponsored clinical trial in pediatric nephrology. In 2010, he received the Henry Barnett Award from the AAP Nephrology Section for his contributions to children with kidney disease and to the pediatric nephrology community. He was awarded his B.S in Biology from Cornell University in 1970 and his M.D. from SUNY Upstate Medical Center in 1974.

Kathryn F. Brown. Ms. Brown was appointed Vice President for Human Resources in July 2011. She is responsible for the leadership of human resources, including Employee Benefits, Employee Relations and Compensation, Payroll, Organizational Development, and Employment. Previously she was the Vice President and Chief of Staff since December 2002, serving as Chief Advisor to the President and playing an integral role in establishing and implementing policy at the University of Minnesota.

Ms. Brown has also served as Associate Vice Provost of Student Affairs, Interim Associate and Assistant Vice President in the Office of Multicultural and Academic Affairs, and Associate General Counsel. Previously Ms. Brown was in private practice with the law firm of Squire, Sanders & Dempsey in Columbus, Ohio. She holds a B.S. in Education from the Ohio State University, a M.Ed. from Miami University, and a J.D. from the University of Toledo College of Law.

Brian Herman. Dr. Herman was appointed Vice President for Research in January 2013, with oversight and administration of externally funded research on the five campuses of the University of Minnesota system. He has primary responsibility for the overall vitality of the University-wide research environment, including supporting evolution of new research, maintaining a competitive research infrastructure, developing and managing campus-wide research policies, and overseeing administrative management of all sponsored research activity. He is also responsible for technology commercialization activities and for the administration of regulatory offices associated with research.

Dr. Herman received his undergraduate degree in Biology from Adelphi University, his doctorate from the University of Connecticut Health Science Center, and postgraduate training at Harvard Medical School. Following the completion of his postgraduate training, he joined the faculty at the University of North Carolina at Chapel Hill School of Medicine. In June 1998, he assumed the position of Professor and Chair of the Department of Cellular and Structural Biology at the University of Texas Health Science Center at San Antonio (UTHSCSA) and served in this capacity until October 2004, when he assumed the position of Vice President for Research at the UTHSCSA.

Pamela Wheelock. As Vice President for University Services, Ms. Wheelock is the chief operations officer for the University and is responsible for creating and sustaining a physical environment and service culture that supports and advances the teaching, research, and outreach mission of the University of Minnesota system. She has leadership and oversight responsibility for Capital Planning and Project Management; Public Safety; Facilities Management; University Health and Safety; and Auxiliary Services (Bookstores, Housing and Residential Life, Dining Services, Parking and Transportation, Printing and General Services, Contract Administration/Dining and Beverage, and U Stores).

Prior to her appointment in August 2012, VP Wheelock served as interim president and chief executive officer of Blue Cross Blue Shield of Minnesota, where she also served as board chair. Her professional experience includes time as vice president for leadership and community engagement with the Bush Foundation; deputy mayor under former St. Paul Mayor Norm Coleman; senior leadership roles with Minnesota Sports and Entertainment, the parent company of the Minnesota Wild; and four years as the State of Minnesota's finance commissioner. She holds a Master of Arts in Applied Economics from Marquette University and a Bachelor of Arts from the College of St. Catherine.

William P. Donohue. Mr. Donohue is General Counsel of the University. As chief legal officer, he is responsible for all legal matters involving the University of Minnesota system and supervises both the Office of Athletic Compliance and the Office of Records and Information Management. Mr. Donohue is a graduate of Carleton College and received his law degree cum laude from the University of Minnesota Law School in 1974. From 1974-1982 he served as a Special Assistant Attorney General for the State of Minnesota litigating cases on behalf of the state. In 1982 he joined the Office of General Counsel as a litigator representing the University. From 1988 to 1990 he served as Acting Vice President and General Counsel. After that time he has served as Deputy General Counsel and Director of Litigation for the University. Mr. Donohue is an adjunct in the College of Education and Human Development teaching "The Law and Postsecondary Institutions" to graduate students. He served on the Ramsey County District Ethics Committee for Lawyers for several years and currently serves as a member of the Minnesota Lawyers Professional Responsibility Board and is Chair of their Rules Committee.

Julie Tonneson. Ms. Tonneson was appointed the Associate Vice President for Budget and Finance in July 2011. She joined the University in 1993 as a budget analyst, and was promoted to Assistant Budget Director in 1998 and Budget Director in 2003. She is responsible for coordinating the annual budget process for all units of the University, working with financial staff in those units to analyze their fiscal health and understand resource needs as they work to advance the strategic goals of the institution. She also assists senior University leadership in developing a financial framework to support the institution's strategic priorities and annual allocation processes, and led the development and implementation of the University's current Earned Income and Full Cost Budget Model.

Ms. Tonneson received her B.A. from Augustana College in 1986 and her M.A. from the University of Minnesota in 1993. From 1988 to 1993 she served in the Minnesota Department of Finance as an Executive Budget Officer specializing in development of the state's preK-12 education budget.

Michael D. Volna. Mr. Volna became Associate Vice President for Finance and Controller in November 2001 after serving as Interim Controller (2000-2001), Associate Controller (1998-2000) and Chief Accountant (1992-1998) for the University. His industry experience includes financial services (1988-1991) and public accounting (1984-1988). Mr. Volna has a B.S. in Accounting and a B.A. in Economics and Political Science from the University of Minnesota. He passed the Certified Public Accountant exam in 1984 (his license to practice is currently inactive) and is a member of the Minnesota Society of Certified Public Accountants and of the American Institute of Certified Public Accountants.

Gail L. Klatt. Ms. Klatt was hired in 1994 and appointed Associate Vice President for Internal Audit in 1997. Ms. Klatt came to the University with 17 years of experience auditing financial services organizations. She received her B.B.S. from the University of Minnesota in 1976. She is a member of the Institute of Internal Auditors and is a Certified Internal Auditor.

Stuart H. Mason. Mr. Mason's responsibilities as Associate Vice President for Investments and Banking and Chief Investment Officer include managing the University's broadly-diversified endowment portfolio and long-term reserves and directing the cash management and treasury operations, including direct investment of the University's operating reserves. He also serves as the Treasurer and Chief Investment Officer of the University's captive insurance company, RUMINCO, Ltd.

Prior to joining the University in 2002, Mr. Mason served for 15 years as a senior investment banker or executive officer in several investment banks including Dougherty & Company, EVEREN Securities, and Dain Rauscher Corporation. He also served for 10 years as a Vice President of Wells Fargo Corporation. Mr. Mason serves as a director on the boards of several non-profit organizations. Mr. Mason received a B.A. from St. Olaf College and an M.B.A. from the University of Minnesota Carlson School of Management.

Campuses and Enrollment

The University operates campuses in the Twin Cities, Duluth, Morris, Crookston, and Rochester, Minnesota.

The table below sets forth enrollment information for the University:

Fall Term Enrollments

Fall Terms	Total	Twin Cities	Duluth	Morris	Crookston	Rochester*
2009-10	67,364	51,659	11,664	1,705	2,279	57
2010-11	67,932	51,721	11,729	1,811	2,528	143
2011-12	69,221	52,557	11,806	1,932	2,653	273
2012-13	68,418	51,853	11,491	1,896	2,764	414
2013-14	68,047	51,526	11,241	1,946	2,839	495

* *Accepted enrollments beginning in 2009*

Accreditation and Degrees

All of the campuses of the University operate under the accreditation of the Higher Learning Commission (HLC) of the North Central Association of Colleges and Schools. The Crookston, Duluth, Morris and Twin Cities campuses are each accredited separately. The Rochester campus is included under the accreditation of the Twin Cities campus. The University offers a wide range of degree programs in the total set of 870 degree programs: 307 Bachelor's programs, 197 Master's programs, 101 Doctoral programs, 6 first professional, and 259 other programs (e.g., certificates).

The University also maintains several branch facilities and certain experimental facilities outside of the formal college campuses. These facilities provide a variety of continuing education courses. The table below sets forth information pertaining to the degrees and certificates conferred by the University during the past five years:

Degrees Conferred

Academic Year	Associates	Bachelors	Masters & Doctorates	Certificates
2008-09	14	9,011	4,904	624
2009-10	7	9,246	5,225	535
2010-11	2	9,525	5,309	525
2011-12	4	10,273	5,291	585
2012-13	0	10,395	5,242	738

Freshman Applications, Acceptances and Matriculants at All Campuses

Fall Terms	Applications	Acceptances	Acceptances %	Matriculants	Matriculants %
2009-10	44,087	24,344	55.2	8,258	33.9
2010-11	47,885	25,819	53.9	8,447	32.7
2011-12	50,556	26,449	52.3	8,317	31.4
2012-13	48,148	26,222	54.5	8,189	31.2
2013-14	53,791	26,912	50.0	8,435	31.3

Starting in 2006, the number of high school graduates in Minnesota began to level off, and has reached its low point. According to the Western Interstate Commission for Higher Education, the Minnesota high school graduating class of 2013 was projected to drop to approximately 59,400, after which the number of high school graduates is expected to increase slowly through 2024, when it is projected to reach approximately 65,800. Despite the recent declines in high school graduates, the University has continued to see an increased number of applications, and its applicants are better qualified. Comparing Twin Cities freshmen in fall 2013 to fall 2006, the average ACT score has risen to 27.9 from 25.2, and the average high school rank has risen to 85.6 from 83.2. A new University-wide Honors Program was started in 2007, attracting high-profile students from across the country, with over 600 freshmen enrolling in the program each year. The average ACT score of the fall 2013 Honors freshman is 32.2; his or her average high school rank is 97.

The University has reciprocity agreements with the states of Wisconsin, North Dakota and South Dakota, and the province of Manitoba, Canada. Residents of any of these states or such province may qualify for reciprocity tuition rates, which are lower than nonresident tuition rates and, in some cases, comparable to resident rates. The University reduced its Twin Cities campus undergraduate nonresident tuition rate significantly beginning with students matriculating in fall 2008, in anticipation of the need to recruit more students from outside the traditional resident/reciprocity area of Minnesota, North Dakota, South Dakota and Wisconsin. This is because the decline in high school graduates was expected to be quite steep in the tuition reciprocity states, especially the Dakotas. The difference between the resident/reciprocity state student tuition and nonresident student tuition for fiscal year 2014 is now $6,250 on the Twin Cities campus and $3,665 on the Duluth campus. The Crookston, Morris, and Rochester campuses, given their size and location, will continue to have a single undergraduate rate for both resident and non-resident students. The number and proportion of nonresident, non-reciprocity undergraduate students on the Twin Cities campus has increased from 2,217 (7.7%) in fall 2007 to 5,650 (18.7%) in fall 2013. The University has expanded its national recruiting profile, and plans to continue its efforts to draw students from outside of the Midwest. Current strategy is to slowly increase the gap between resident vs. non-resident tuition rates over a period of time to develop new markets and address demographic trends by encouraging a long-term increase in non-resident, non-reciprocity enrollment. The University expects it will continue to be able to meet its established enrollment and tuition revenue targets.

Academic and Other Employees

Academic. As of September 2013, the academic staff of the University paid from all fund sources included approximately 10,200 individuals. Of these individuals, approximately 2,900 are faculty that are tenured or are working toward being tenured (and are therefore in probationary status), and approximately 1,400 are faculty with clinical, visiting, adjunct, temporary or non-tenure track appointments. Also included in the academic staff are approximately 5,900 individuals in academic/administrative and professional positions.

Other Employees. As of September 2013, the University employed approximately 22,600 other full-time and part-time employees, of which approximately 12,400 were students and 10,200 were civil service or members of one of seven collective bargaining units with which the University has entered into or currently is negotiating employment contracts. The University characterizes its employee relations as good.

Financial Operations

Effective with the fiscal year ended June 30, 2013, the University adopted Government Accounting Standards Board ("GASB") Statement No. 60, *Accounting and Financial Reporting for Service Concession*

Arrangements, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 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*. There is no known financial impact to the University's financial statements as a result of the adoption of these GASB Statements. However, related to the implementation of GASB 63, two new elements – deferred inflows and deferred outflows of resources – are introduced. The Statement of Net Assets will be updated to include these additional categories, however the University did not have any activity to report under either one. GASB 63 also amended the net asset reporting requirement to rename Net Assets to Net Position. As a result, the Statement of Net Assets will be renamed "Statement of Net Position."

The University's summary consolidated statements of net assets for the fiscal years ended June 30, 2008 through June 30, 2012, are summarized as follows:

SUMMARY CONSOLIDATED STATEMENTS OF NET ASSETS
AS OF JUNE 30,
(in thousands)

	2008	2009	2010	2011	2012
Assets					
Current assets	$ 708,217	$ 611,540	$ 598,999	$ 590,555	$ 585,161
Noncurrent investments	1,435,584	1,183,005	1,345,967~	1,595,855~	1,725,670
Other noncurrent assets	2,400,207	2,585,870	2,622,294	2,839,368	2,943,219
Total assets	4,544,008	4,380,415	4,567,260	5,025,778	5,254,050
Liabilities					
Current liabilities	1,079,608	969,592	866,050	733,921	726,076
Noncurrent liabilities	370,671	579,002	710,480	988,615	1,100,031
Total liabilities	1,450,279	1,548,594	1,576,530	1,722,536	1,826,107
Net assets					
Unrestricted	218,680	562,994*	613,688~	607,364~	727,348
Restricted	1,365,115	677,249*	754,667	1,056,467	1,049,599
Invested in capital assets, net of related debt	1,509,934	1,591,578	1,622,375	1,639,411	1,650,996
Total net assets	$3,093,729	$2,831,821	$2,990,730	$3,303,242	$3,427,943

* Reflects an adjustment to correct an understatement of Unrestricted Net Assets and overstatement of Restricted Net Assets, both of which were not material to the financial statements as a whole.

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

The University's consolidated revenues, expenses, and changes in net assets for the five fiscal years ended June 30, 2008 through June 30, 2012 are summarized as follows:

SUMMARY CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30,
(in thousands)

	2008	2009	2010	2011	2012
Operating revenues					
Student tuition and fees (net of scholarship allowances)	$ 547,874	$ 590,648	$ 576,363	$ 634,042	$ 696,278
Grants and contracts	707,657	662,009	746,870	817,045	858,810
Auxiliary enterprises (net of scholarship allowances)	307,975	289,408	324,068	345,537	351,571
Sales and services of educational activities (net of scholarship allowances)	161,526	197,357	198,761	117,870	160,230
Other operating revenues	4,564	3,865	4,294	4,566	2,028
Total operating revenues	1,729,596	1,743,287	1,850,356	1,919,060	2,068,917
Nonoperating revenues					
Federal appropriations	8,363	22,409	64,948	69,416	15,145
State appropriations	733,740	707,806	651,350	623,300	572,075
Grants and gifts	252,452	286,920	331,302	322,116	319,656
Investment income, net	(49,848)	(285,507)	54,801	180,865	36,895
Other nonoperating revenues	—	—	2,460	—	2,354
Total operating and nonoperating revenues	2,674,303	2,474,915	2,955,217	3,114,757	3,015,042
Capital appropriations	74,937	65,913	98,555	75,801	60,570
Capital grants and gifts and additions to permanent endowments	32,221	48,246	49,021	46,931	42,783
Total revenues	2,781,461	2,589,074	3,102,793	3,237,489	3,118,395
Total operating expenses	(2,747,122)	(2,902,268)	(2,900,389)	(2,886,024)	(2,948,366)
Nonoperating expenses					
Interest on capital asset-related debt	(32,107)	(28,755)	(30,876)	(36,592)	(45,328)
Other nonoperating expenses	(2,788)	(110)	—	(2,361)	—
Total operating and nonoperating expenses	(2,782,017)	(2,931,133)	(2,931,265)	(2,924,977)	(2,993,694)
Increase (decrease) in net assets	(556)	(342,059)	171,528	312,512	124,701
Cumulative effect of change in accounting principle*	(12,820)	80,151	(12,619)	—	—
Net assets, beginning of year	3,107,105	3,093,729	2,831,821	2,990,730	3,303,242
Net assets, end of year	$3,093,729	$2,831,821	$2,990,730	$3,303,242	$ 3,427,943

* The cumulative effect of change in accounting principle is due to a change in revenue recognition and the implementation of Governmental Accounting Standards Board Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations,* GASB 51, *Accounting and Financial Reporting for Intangible Assets,* and GASB 53, *Accounting and Financial Reporting for Derivative Instruments*.

Operating Revenues

Operating revenues 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 in which 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 (included in other operating revenues), and sales and services of auxiliary and educational activities (net of scholarship allowances) to be exchange transactions.

Student Tuition and Fees, Net of Scholarship Allowances. The University collects tuition and fees from its students in return for its instructional and other services. The University is committed, as a State assisted institution, to providing educational opportunities to the people of the State of Minnesota through a combination of affordable tuition rates and available student aid. As a result of declining state support over the last several years, tuition revenue now exceeds, and is a higher percentage of total revenue than, state appropriation revenue. Tuition rates for both resident and nonresident students on all campuses rose 3.5% for fiscal year 2013, except that rates for nonresident students rose 4.0% on each of the Twin Cities and Duluth campuses. The University committed to hold resident undergraduate tuition at the fiscal year 2013 level in both fiscal years 2014 and 2015 in connection with an incremental increase of $14.2 million from the State of Minnesota in each year of the biennium. Fiscal year 2014 tuition for non-resident undergraduate students on the Twin Cities and Duluth campuses increased by $1,000.

Grants and Contracts. The University receives funds from federal, state and other government sources as well as private industry for both sponsored and non-sponsored projects in the form of grants and contracts that provide for reimbursement of costs incurred. Generally, these funds are given to support medical, technical and agricultural research and education, with most of the funds going to health sciences and technology. Approximately 40% of annual research award amounts for the fiscal years 2006 through 2012 were received from the National Institute of Health (NIH). Although the grantors have made significant annual awards to the University, they are under no legal obligation to make such awards and no assurances can be given that such awards will continue.

To be classified as an operating grant or contract the grantor must be a direct recipient of the goods or service provided, and the fair market value of the goods or services provided by the University must approximate the amounts received in exchange.

Auxiliary Enterprises, Net of Scholarship Allowances. The University receives revenues from its operation of bookstores, housing and parking facilities, transportation, food and health services, telecommunications and other auxiliary enterprise services, as well as from the operation of its intercollegiate athletic programs.

Sales and Services of Educational Activities, Net of Scholarship Allowances. Various departments of the University provide services or products to the public or to agencies of the State as part of the process of educating and providing experience to students. The College of Food, Agricultural and Natural Resource Sciences, the College of Veterinary Medicine and the School of Dentistry are significant examples of University units that generate revenues through the provision of services or the production of goods, but other University units also generate revenues in this manner. Royalty income is also included in this revenue category.

Other Operating Revenues. The primary sources of other operating revenues are miscellaneous revenues and settlements and interest on student loans.

Operating Expenses

Operating expenses represent the costs incurred by the University in the delivery of its primary mission services of research and discovery, teaching and learning, and outreach and public service. Operating expenses are displayed functionally within the Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, but natural classifications can also be found in Note 12 to the Audited Consolidated Financial Statements in APPENDIX B.

Nonoperating Revenues (Expenses)

Nonoperating revenues and expenses represent nonexchange activities. The primary sources of revenues are federal appropriations, state appropriations, gifts, federal and state financial aid grants, investment income, net, 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.

Federal Appropriations. The University, as a land grant institution, receives appropriations from the federal government. These funds, which primarily support agricultural research and education, must be applied for on an annual basis. Although they have represented a consistent source of funding in the past, there are no guarantees the appropriations will be continued in future governmental budgets.

State Appropriations. The University receives substantial support from the State of Minnesota (the "State"). Although the Legislature has made significant annual appropriations to the University, the Legislature is under no legal obligation to appropriate funds to the University to enable the University to pay the principal of or interest on its debt with two exceptions. See *Capital Appropriations* herein.

Future levels of State support are dependent upon the ability and willingness of the Legislature to make and fund appropriations to the University, taking into consideration the availability of financial resources and other potential uses of such resources.

The State operates on a biennial budget basis, with each biennium ending on June 30 of an odd numbered year. The University submits its biennial general operations legislative request in October of the year preceding the new biennium. The resulting biennial State appropriation is incorporated into the University's budgeting process when enacted.

Legislative appropriations are allotted by Minnesota Department of Management and Budget ("MMB") to the University and to other State agencies to which such appropriations are made. Such allotments have the effect of timing the disbursements of funds over monthly periods during the State's fiscal year.

Revenue forecasts are revised during and after the legislative sessions to reflect legislative actions that have a direct impact on State revenues and changes in economic conditions that may materially affect the results of previous revenue forecasts. If, during the course of the fiscal year, the Commissioner of MMB (the "Commissioner") discovers that probable revenues will be less than anticipated, the Commissioner, with the approval of the Governor, is required to reduce allotments as necessary to balance expenditures and revenues forecast for the then current biennium. Such reductions to a previously enacted appropriation are referred to, for State budget purposes and herein, as "unallotments" and may be either nonrecurring (a one-time appropriation reduction not reducing the recurring base) or recurring (a reduction to the appropriation base). The University has experienced both a recurring unallotment and a nonrecurring unallotment in recent State fiscal years. The Governor also has the authority to request legislative actions to provide additional sources of revenue, but such requests do not relieve the Commissioner of the obligation to reduce allotments.

	2012-2013 Biennium		2014-2015 Biennium	
	FY2012	**FY2013**	**FY2014**	**FY2015**
	(in thousands)			
Prior year General Fund Appropriations*	$591,191	$ 545,344	$ 545,344	$ 576,799
Net increase (decrease) for the current fiscal year	(45,847)	—	31,455	14,300
General Fund Appropriations for the current fiscal year*	$545,344	$545,344	$ 576,799	$ 591,099

* This amount excludes non-general fund appropriations, e.g., cigarette funding, MNCare, and special one-time project appropriations, all of which are included in the state appropriations amount as reported in the Summary Consolidated Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended June 30.

As the Legislature convened in January 2011 to adopt the 2012-2013 biennial budget, the State was facing a projected $5.8 billion shortfall. In part, this shortfall was the result of base increases for state programs, including the University, enacted by the 2009 legislature for fiscal years 2012 and 2013. The higher education bill passed by the Legislature included an appropriation reduction for the University of $70.8 million annually from the fiscal year 2011 funding level. However, the Governor did not sign the higher education bill or the other major spending bills, and the Legislature adjourned without adopting a balanced budget for the State prior to the statutorily defined deadline in May 2011. In June 2011, the Board of Regents approved a provisional annual operating budget for fiscal year 2012 based on the $70.8 million appropriation reduction in the vetoed higher education bill. Without spending authority for the next biennial budget period, all non-essential state government offices and services were shut down on July 1, 2011. The University remained open with services and activities continuing as normal.

In late July, 2011, the Governor and the Legislature arrived at a compromise for balancing the state budget and a special session was held to pass the spending and revenue bills. The University's final appropriation for fiscal 2012 reflected a reduction of $45.8 million from the fiscal year 2011 funding level, approximately $25.0 million less than the appropriation reduction that had been included in the vetoed higher education bill. The Board of Regents approved the University's revised annual operating budget for fiscal year 2012 on September 9, 2011.

Of the $25.0 million revenue in fiscal 2012 above the provisional budget approved by the Board in June, 2011, $18.9 million was allocated in fiscal 2012 to address recurring and nonrecurring budget issues and $6.1 million was carried forward for nonrecurring investment in fiscal 2013. On a recurring basis, the $25.0 million additional revenue was allocated as follows: $8.15 million in fiscal 2012 to address recurring budget issues; $8.30 million to recurring tuition relief in fiscal 2013, and $8.55 million to recurring strategic investments in fiscal 2013. Entering the 2013 legislative session, the State's budget forecast showed signs of growth compared to prior years, resulting in the first increase to the University's appropriation in six years. The University's biennial budget request to the State for fiscal years 2014 and 2015 was premised on a framework of reforming how the State and the University partner to deliver on the University's threefold mission of research and discovery, teaching and learning, and outreach and public service. Two significant items were requested and funded for the biennium: an incremental increase of $14.2 million in each year of the biennium corresponding to a commitment by the University to hold resident undergraduate tuition at the fiscal year 2013 level in each of those two years, and an increase of roughly $18 million beginning in fiscal year 2014 for a new research and discovery program called MnDRIVE-the Minnesota Discovery, Research and InnoVation Economy funding program. For the 2014-2015 biennium, the MnDRIVE program will include investment in four areas of strength for the University that will benefit the state's economy: Robotics, the Global Food Supply, Discoveries & Treatments in Brain Conditions, and Advancing Industry through Addressing Environmental Challenges.

The University's final general fund appropriations (Operations and Maintenance and Special) for fiscal year 2014 is $576,799,000, reflecting the $14,200,000 increase for tuition relief, the $17,775,000 for the MnDRIVE program, and two minor adjustments totaling $520,000. This appropriation has been incorporated into the fiscal year 2014 annual operating budget approved by the Board of Regents in June, 2013. The total appropriation in those same funds for fiscal year 2015 is $591,099,000, which includes an additional $14,200,000 for the second year of tuition relief and a $100,000 increase to the MnDRIVE program.

See "APPENDIX B—AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE UNIVERSITY FOR THE YEARS ENDED JUNE 30, 2012 AND 2011—Consolidated Statements of Net Assets as of June 30, 2012, and June 30, 2011," "—Consolidated Statements of Revenues, Expenses, and Changes in Net Assets for the Years Ended June 30, 2012, and June 30, 2011" and "—Management's Discussion and Analysis—Factors Affecting Future Economic Conditions."

Grants. The University is awarded various grants and contracts from governmental and private sources for which the granting agency does not receive a direct, quid pro quo benefit in return. The largest sources of these funds are Pell and Supplemental Educational Opportunity Grants, student aid program revenues, and student financial aid from the Minnesota Office of Higher Education.

Gifts. This category represents gifts received from one of the University foundations for other than capital or endowment purposes.

Investment Income (Loss), Net. This category includes interest income, net realized gains and losses and adjustments to market value as well as endowment income. Amounts reported as investment income include income earned from all of the University's internal investment pools, as well as income earned on investments related to indebtedness. The University has been the beneficiary of endowment support from both the private and public sectors. In 1862, the federal government, through the Morrill Act, conveyed to the State a "land grant" for the support of the University. In the intervening years, proceeds from the sale of these lands (classified as Additions to Permanent Endowments) and the income generated from investment of the proceeds (classified as Investment Income) have been deposited in the Permanent University Fund, which now constitutes the basic public endowment of the University. Earnings on Permanent University Fund proceeds can be used to support endowed chairs, research activities, and undergraduate scholarships. In addition to this public sector endowment, the University has been the recipient of gifts and bequests that are typically consolidated for investment purposes into the University's Consolidated Endowment Fund. The majority of the University's endowment funds are managed by several outside professional investment counselors under policies authorized by the Board of Regents.

Interest on Capital Asset-Related Debt. This category reflects the cost of interest expense on capital asset-related debt.

Other Nonoperating Expenses. This category primarily represents the net loss on disposal of capital assets.

<u>Other Revenues</u>

Capital Appropriations. This category includes state appropriations for specific capital projects as designated by State law. Capital appropriations are awarded on a biennial schedule based upon state budget constraints and are paid through a cost reimbursement method whereby the University certifies expenditures on approved projects when requesting draws. "Capital appropriations" also includes appropriations under Minnesota Statutes, Sections 137.50 to 137.60, enacted by the Legislature in 2006, providing for an annual transfer to the University from an appropriation from the General Fund to pay the principal and interest on the University's Special Purpose Revenue Bonds (State Supported Stadium Debt) Series 2006, and appropriations under Minnesota Statutes, Sections 137.61 to 137.65, enacted by the Legislature in 2008, that established a biomedical science research facilities funding program to pay up to 75 percent of the project costs for each of four biomedical science facilities. See "Outstanding Indebtedness" herein.

Capital Grants and Gifts, and Additions to Permanent Endowments. The University receives various grants and gifts from both governmental and private sources that are restricted for either the purchase or renovation of capital assets. Funds received from donors to increase the principal of a permanent endowment established before the creation of the foundations (new endowments must be established through one of the University foundations) are also reflected in this category.

Outstanding Indebtedness

Outstanding debt as of the fiscal years ended June 30, 2012 and June 30, 2013 consisted of the following:

	2012	(Unaudited) 2013
General Obligation Taxable Bonds, Series 2013B, at coupon rates ranging from 2.6% to 3.75%, due at various dates through fiscal year 2038*	$ —	$ 14,129,000
General Obligation Bonds, Series 2013A, at coupon rates ranging from 2.0% to 5.0%, due at various dates through fiscal year 2038*	—	82,220,000
General Obligation Bonds, Series 2011D, at coupon rates ranging from 2.0% to 5.0%, due at various dates through fiscal year 2037*	60,808,000	59,353,000
General Obligation Bonds, Series 2011C, at coupon rates ranging from 0.9% to 4.56%, due at various dates through fiscal year 2037*	19,322,000	19,023,000
General Obligation Bonds, Series 2011A, at coupon rates ranging from 2.0% to 5.5%, due at various dates through fiscal year 2037*	348,776,000	326,594,000
General Obligation Bonds, Series 2010B, at coupon rates ranging from 0.74% to 5.02%, due at various dates through fiscal year 2036	40,800,000	39,505,000
General Obligation Bonds, Series 2010D, at coupon rates ranging from 3.86% to 5.77%, due at various dates through fiscal year 2030	27,200,000	27,200,000
General Obligation Bonds, Series 2010C, at coupon rates ranging from 2.0% to 4.0%, due at various dates through fiscal year 2016*	6,130,000	4,660,000
General Obligation Bonds, Series 2009D, at coupon rate of 6.3%, due at various dates through fiscal year 2029*	37,049,000	37,066,000
General Obligation Bonds, Series 2009C, at coupon rates ranging from 1.5% to 5.0%, due at various dates through fiscal year 2022*	39,984,000	36,667,000
General Obligation Bonds, Series 2009B, at coupon rates ranging from 2.5% to 6.0%, due at various dates through fiscal year 2029	15,405,000	14,785,000
General Obligation Bonds, Series 2009A, at coupon rates ranging from 3.0% to 5.25%, due at various dates through fiscal year 2034*	39,568,000	38,432,000
Special Purpose Revenue Bonds, Series 2011B, at coupon rates ranging from 3.0% to 5.0%, due at various dates through fiscal year 2037*	57,736,000	57,143,000
Special Purpose Revenue Bonds, Series 2010A, at coupon rates ranging from 3.0% to 5.0%, due at various dates through fiscal year 2036*	122,629,000	119,573,000
Special Purpose Revenue Bonds, Series 2006, at coupon rates ranging from 4.0% to 5.0%, due at various dates through fiscal year 2030*	126,584,000	121,615,000
Commercial Paper Notes, Series A, at rates ranging from .10% to .16%, due at various dates through fiscal year 2022**	124,100,000	117,100,000
Commercial Paper Notes, Series B, at rates ranging from .11% to	46,000,000	43,000,000

.15%, due at various dates through fiscal year 2026**		
Commercial Paper Notes, Series C, at rates ranging from .11% to .16%, due at various dates through fiscal year 2028**	54,000,000	50,500,000
Commercial Paper Notes, Series D, at rates ranging from .12% to .15%, due by December 31, 2029**	22,250,000	19,450,000
Obligations to the State of Minnesota pursuant to Infrastructure Development Bonds, at 3.55% to 5.7%, due at various dates through fiscal year 2025	30,639,000	25,817,000
Various Auxiliary Revenue Bonds, at 3.0%, due at various dates through fiscal year 2014	1,420,000	620,000
Capital leases and other, at 1.98% to 4.06%, due at various dates through fiscal year 2024	5,988,000	46,278,000***
Total Indebtedness	$1,226,388,000	$1,300,730,000

* Outstanding balance includes premium received or discount at issuance less amortization to date.

** The dates reflected are consistent with the payment schedules provided for within the respective offering memoranda. Under generally accepted accounting principles, commercial paper is short-term in nature and classified as current liabilities on the Consolidated Statements of Net Assets in the University's Annual Report.

*** Includes capitalization of leased space at the Twin Cities and Rochester campuses.

Every other year the State approves funding for certain capital projects for the University and other State agencies. The State, through the Infrastructure Development Bonds ("IDB") program, may issue bonds for these capital projects. The State requires each beneficiary of such bond proceeds, including the University, to pay one third of the debt service on allocable IDB program bonds issued for capital projects that are not primarily for renewal or code improvements. 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 $77,448,000 as of June 30, 2013 and $91,915,000 as of June 30, 2012 of which the University owes $25,817,000 and $30,639,000, respectively.

Current University policies permit the University to enter into various interest rate swap agreements with counterparties meeting University credit criteria for the purposes of managing interest cost and risk associated with its debt. Certain information with respect to certain interest rate swap agreements that were outstanding on June 30, 2012, and June 30, 2011, is included in "APPENDIX B—AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE UNIVERSITY FOR THE YEARS ENDED JUNE 30, 2012 AND 2011—Note 5 to the Audited Consolidated Financial Statements." Two freestanding swaps with notional amounts of $37,500,000 each matured in fiscal year 2013. Both were pay-fixed, receive-variable interest rate swaps, with fixed rates of 4.88% and 4.90%, respectively, to two separate counterparties. 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. The swap, with a notional amount of $70,000,000, matures in August 2017 and has an unaudited June 30, 2013 fair value of approximately ($12,000,000). Under the terms of the interest rate swap agreements, the University makes periodic payments determined on the basis of a fixed rate of interest applied to a nominal principal amount and receives periodic payments determined on the basis of a variable rate of interest applied to such nominal principal amount. There can be no assurance as to the terms of any interest rate swap agreements into which the University may enter in the future or as to whether existing or any future University interest rate swap agreements will remain in effect without amendment throughout their stated terms.

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 $40,000,000 for the period October 1, 2012 through September 30, 2013.

Endowment and Other Investments

Total endowment and other investments, including those in the Group Income Pool, Temporary Investment Pool, the Permanent University Fund, other gifts combined in the Consolidated Endowment Fund, and Separately Invested Funds, and securities lending collateral at June 30 of the five fiscal years indicated are shown at market value in the following table. The University discontinued its securities lending program during fiscal year 2009.

	2009	2010	2011	2012	(Unaudited) 2013
Market Value	$1,227,709,000	$1,375,967,000	$1,648,120,000	$1,859,256,000	$1,978,690,000

Investment securities are exposed to various risks, such as credit, interest rate, foreign currency and other capital market risks. Due to the nature of certain investment securities, market values are expected to fluctuate.

Cash and Cash Equivalents

Cash and cash equivalents is defined as cash and short-term, highly liquid investments, with original maturities of 90 days or less, that bear little or no market risk. Restricted cash and cash equivalents represent unspent bond proceeds that are externally restricted for the construction or purchase of buildings or other capital assets. Total cash and cash equivalents at June 30 of the previous five fiscal years is shown on the following table:

2009	2010	2011	2012	(Unaudited) 2013
$326,320,000	$290,580,000	$419,032,000	$355,520,000	$281,011,000

Component Units

Through fiscal year 2012, the University's financial reporting entity includes, in addition to the University, seven component units that are considered nonprofit organizations, organized under IRS Code Section 501(c)(3). These units report under Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units – An Amendment of GASB Statement No. 14*, 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. The seven component units listed below are included in the University's financial statements for the years ended June 30, 2012 and 2011.

Foundations. The University of Minnesota Foundation ("UMF"), the Minnesota Medical Foundation ("MMF"), the Minnesota Landscape Arboretum Foundation ("MLAF") and the Minnesota 4-H Foundation ("MN 4-H") (collectively, the "Foundations") are tax-exempt organizations legally separate from the University, formed for the primary purpose of obtaining and disbursing funds for the benefit of the University. At June 30, 2012 and 2011, respectively, the combined net assets of the Foundations were approximately $1,972,513,000 and $1,954,445,000, of which approximately $1,060,689,000 and $1,073,642,000 was temporarily restricted, $836,822,000 and $810,379,000 was permanently restricted, and $75,002,000 and $70,424,000 was unrestricted. During the fiscal years ended June 30, 2012 and 2011 the Foundations distributed approximately $188,240,000 and $174,554,000, respectively, to the University, which has been recorded as private gifts.

The market values as of June 30, 2012, of the endowments managed by UMF and MMF were $1,499,991,000 and $288,626,000, respectively.

University of Minnesota Alumni Association. The University of Minnesota Alumni Association ("UMAA") is a legally separate, tax-exempt organization that serves alumni and the University of Minnesota with a mission to connect alumni to the University, advocate and support excellence in education, and build pride, spirit, and community. During the years ended June 30, 2012 and 2011, the Association distributed $1,205,000 and $1,234,000, respectively, to the University.

University Gateway Corporation. The University Gateway Corporation ("Gateway") is a legally separate, tax-exempt entity that owns and operates a facility used to support two beneficiary organizations and the University of Minnesota in student recruiting, alumni relations, fund-raising activities, and general operations. During the years ended June 30, 2012 and June 30, 2011, Gateway distributed $689,000 and $987,000, respectively, to the University.

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. During the years ended June 30, 2012 and 2011, UMP distributed $79,061,000 and $67,294,000, respectively, to the University.

Changes to Component Unit Reporting for Fiscal Year 2013

The University will present only two component units in its fiscal 2013 annual financial statements - UMF and UMP. Effective February 2013, UMF and MMF combined to create a single foundation operating as the University of Minnesota Foundation ("UMF"). Financial Accounting Standards Board accounting standards require UMF to report this combination as an acquisition rather than a merger and as such, MMF will be consolidated as part of UMF's financial statements. In addition, the combined entity controls 70% of the Gateway voting stock, which results in the consolidation of Gateway with UMF.

The University is electing to discontinue reporting UMAA, MLAF and MN 4-H in its financial statements due to materiality considerations.

Financial Management

Fund Accounting. Fund balances and activity are no longer presented in the external financial statements; however, the University continues to manage its assets and operations under fund accounting principles. Teaching, research and public service are the primary objectives of the University; thus, the primary obligation of accounting and reporting is to account for resources received and used rather than to determine net income. The funds received by the University are often restricted and may be used only for the particular program, purpose, department or school specified by the donor. In order to account properly for the diversity of resources of the University and the many uses to which those resources are applied, the University maintains a fully integrated fund accounting and budgetary system. Resources are maintained in separate groups, or funds, according to their particular sources and uses. The funds are grouped as follows: current unrestricted funds, current restricted funds, loan funds, endowment and similar funds, agency funds, and plant funds. For a discussion of the accounting policies used by the University, see the notes to the Audited Consolidated Financial Statements contained in "APPENDIX B—AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE UNIVERSITY FOR THE YEARS ENDED JUNE 30, 2012 AND 2011."

Budgeting Procedures. The University, in conjunction with the compact planning process, has a specific strategic planning and budgeting model linking the operating and capital budget decisions to the strategic plans of the University while maintaining an all funds approach to budgeting.

At present, only the current unrestricted and restricted nonsponsored funds are budgeted annually. The primary sources of unrestricted funding available for the general operation of the University are general appropriations from the State, student tuition and University fees, and other general income.

The recurring planning process is based on the University's mission statement, goals, objectives and priorities. The results of this planning process help to shape the development of legislative requests for funding. Since the State operates on a biennial budget basis, major legislative requests are submitted every two years and the resulting biennial State appropriations are incorporated into the budget process when enacted, usually in mid-May of odd-numbered years. See "Financial Operations—*Nonoperating Revenues (Expenses)—State Appropriations*" herein. The general State appropriation is unrestricted and use of the funds is determined by the University through collegiate and administrative compacts or agreements.

The President is the chief planning officer and is responsible for preparing and submitting a complete budget recommendation to the Board of Regents each year.

Each year a set of Budget Development Principles is the first step in the formal budget process. These principles outline in a narrative fashion the goals and objectives of the next budget. Concurrently, resource and expenditure estimates are prepared for the University as budget planning and development parameters. Included in these parameters are planning assumptions related to the size of tuition increase, size of salary and fringe benefit increases, and other projected operating cost increases.

General financial parameters and detailed budget plans are then completed by the colleges and administrative units based on the Budget Development Principles, the University's planning parameters and the individual unit's assessment of its revenue and expenditure projections. The President and his administrative team review collegiate and administrative unit budgets, and a comprehensive budget is compiled that is submitted to the Board of Regents for approval, usually at its June meeting.

Monitoring Budgeted to Actual Results. Once balanced and approved, the budget allocations are integrated into the accounting system. An allocation specifies an amount of resources that is available for expenditure during the fiscal year. A department that has received an allocation may make encumbrances against its allocation for specific expenses that will be incurred. An encumbrance is an accounting transaction used to reserve portions of the allocation for expenditures that are planned but not yet incurred. A department or other unit cannot make encumbrances in excess of its anticipated resources. Actual expenditures are subtracted from total resources. If the expenditures from any account exceed the resources, the result is a deficit account balance. University policy generally prohibits maintaining deficit account balances.

Procedures to monitor the adherence to budget include periodic budget to actual comparison reports and account balance reports. These reports are the basis of management review and the detection of potential fiscal problems within a college, department or other unit. When warranted, the appropriate dean or vice president may initiate corrective action.

Cash Management Program. The University has maintained an active, centralized cash management program for over 20 years, focusing on daily cash forecasting and concentration and disbursement of funds. The University presently consolidates on a daily basis cash received throughout its statewide network and disburses funds through a number of controlled accounts. Virtually all bank accounts are run on a zero balance basis. Banks are compensated for their service by the payment of fees.

The cash management system is structured to provide early and maximum availability of resources to timely meet all University financial obligations. Excess working capital funds are invested on a daily basis according to guidelines established by the Board of Regents. Securities that may be purchased are fixed income securities including U.S. Treasury obligations, federal agency securities and corporate bonds, notes and commercial paper; bank paper; repurchase agreements; mutual funds; and money market funds. The policy additionally places limits on all investments based on credit quality, duration and concentration exposure.

The cash management function at the University is handled by the Office of Investments and Banking, which reports directly to the Vice President and Chief Financial Officer.

Certain Contingent Payment Obligations Relating to Construction Contracts

The University regularly enters into contracts for the construction of new facilities and the rehabilitation of existing facilities. As of July 31, 2013 the University had approximately $1.165 billion (unaudited) in Regent approved capital improvements in various stages of design and construction and had paid approximately $618 million toward the cost of these projects. The balance, approximately $547 million, includes both contracted obligations and intended future obligations. Projects are funded from a variety of sources including general obligation and special purpose revenue bonds issued by the University, debt issued by the State, State general appropriations, gifts, and other University funds.

Insurance

Minnesota Statute Section 3.736, Tort Claims, establishes certain limits of governmental liability and provides that procurement of insurance shall act as a waiver of such limits of governmental liability to the extent that valid and collectible insurance exceeds such limits and covers the claim. Because of the insurance described below, the limitation on the total liability of the University or its employees acting within the scope of their employment on any tort claim is: (i) $1,000,000 per claim, and (ii) $3,000,000 per occurrence.

RUMINCO, Ltd., a wholly owned subsidiary of the University, was organized for the purpose of providing the University's general and professional liability (including medical professional liability) insurance. RUMINCO, Ltd. provides coverage for claims filed after August 1, 1978 in either the general liability or professional liability category, with limits of $1,000,000 per claim, $3,000,000 per occurrence and $5,000,000 aggregate per year. Subsequently, automobile liability and Non-Profit Organizational Liability (NPOL) coverage has been added to the insurance provided through RUMINCO, Ltd.

The University's investment in RUMINCO, Ltd. is consolidated within the University's financial statements. The management financial statements of RUMINCO, Ltd., reported the total outstanding liability of $4,573,702 and $3,974,907 at June 30, 2012 and 2011, respectively. As of June 30, 2012, and 2011, the book value of RUMINCO, Ltd.'s total assets as reported in its management financial statements was $32,894,914 and $32,670,639, respectively, with $28,321,212 and $28,695,732, respectively, being its shareholder equity.

The University currently has in force property insurance through the Midwestern Higher Education Compact's Master Property Program. The lead insurer is Lexington Insurance Company, which insures the first $100,000,000 of an occurrence. The University has a limit of $1,500,000,000 per occurrence and insures property values of approximately $11,000,000,000, including business interruption coverage.

The University is self-insured for workers' compensation exposures, and the accrued liability for outstanding claims as of June 30, 2012 and June 30, 2011, was approximately $11,574,000 and $11,965,000, respectively.

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 continuation (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 Incurred But Not Reported (IBNR) claims, is recorded. The amount recorded at June 30, 2012, and June 30, 2011, was approximately $21,139,000 and $16,610,000, respectively.

The University's dental coverage for faculty and staff is also a self-insured program (UPlan). Under UPlan Dental, the University pays claims and establishes reserves. 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. The amount recorded at June 30, 2012, and June 30, 2011, was approximately $996,000 and $1,104,000, respectively.

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 amount recorded June 30, 2012, and June 30, 2011, was approximately $1,198,000 and $1,338,000, respectively. 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 (SHBP), 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% of plan year claims. Effective September 1, 2005, the University negotiated a new student health plan for the Academic Health Center. The plan is self-insured and the health carrier for the plan 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 amount recorded June 30, 2012 and June 30, 2011, for an annual actuarial estimate of the University's liability for medical claims, including IBNR, was approximately $4,561,000 and $4,651,000, respectively. 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 amount recorded at June 30, 2012 and June 30, 2011 was approximately $499,000 and $458,000, respectively. The Medical & Resident group also offers a fully insured Dental Benefit Plan through Delta Dental.

Litigation

There is no controversy or litigation of any nature now pending or, to the knowledge of the University, threatened, that the University believes, individually or in combination, may have a material adverse effect upon the University's financial condition taken as a whole.

APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE UNIVERSITY AS OF AND FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

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University of Minnesota

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

Financial Report

Deloitte.

Deloitte & Touche LLP

50 South Sixth Street
Suite 2800
Minneapolis, MN 55402
USA

Tel: 612 397 4000
Fax: 612 397 4450

INDEPENDENT AUDITORS' REPORT

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

We have audited the accompanying consolidated statements of net assets of the University of Minnesota (the "University") as of June 30, 2012 and 2011, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar, as it relates to the amounts included for the discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, such financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended and the financial statements of the discretely presented component units as of and for the years ended June 30, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche LLP

October 31, 2012

Management's Discussion and Analysis
(Unaudited)

Introduction

This discussion and analysis of the University of Minnesota's (the University) consolidated financial statements provides an overview of the consolidated financial position and activities of the University for the years ended June 30, 2012, 2011, and 2010. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

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

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

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

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

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

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

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

Mission

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

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

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

Operations

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

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

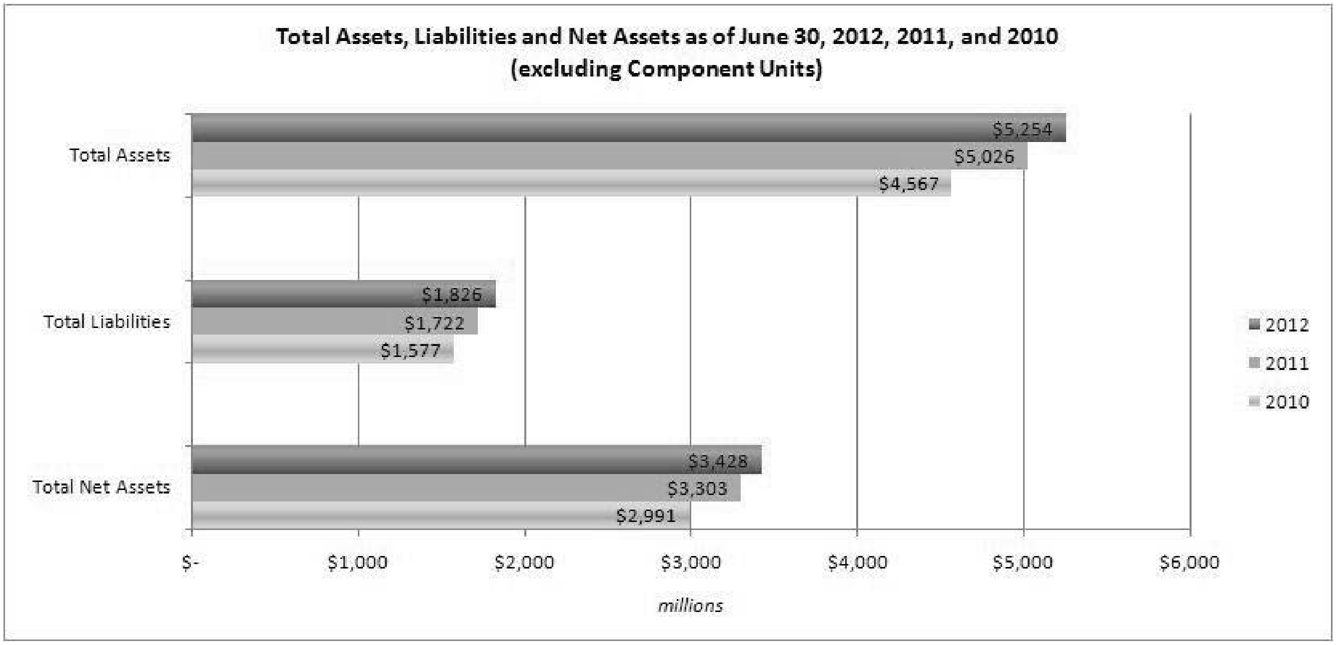
Consolidated Financial Statements

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

Financial Highlights

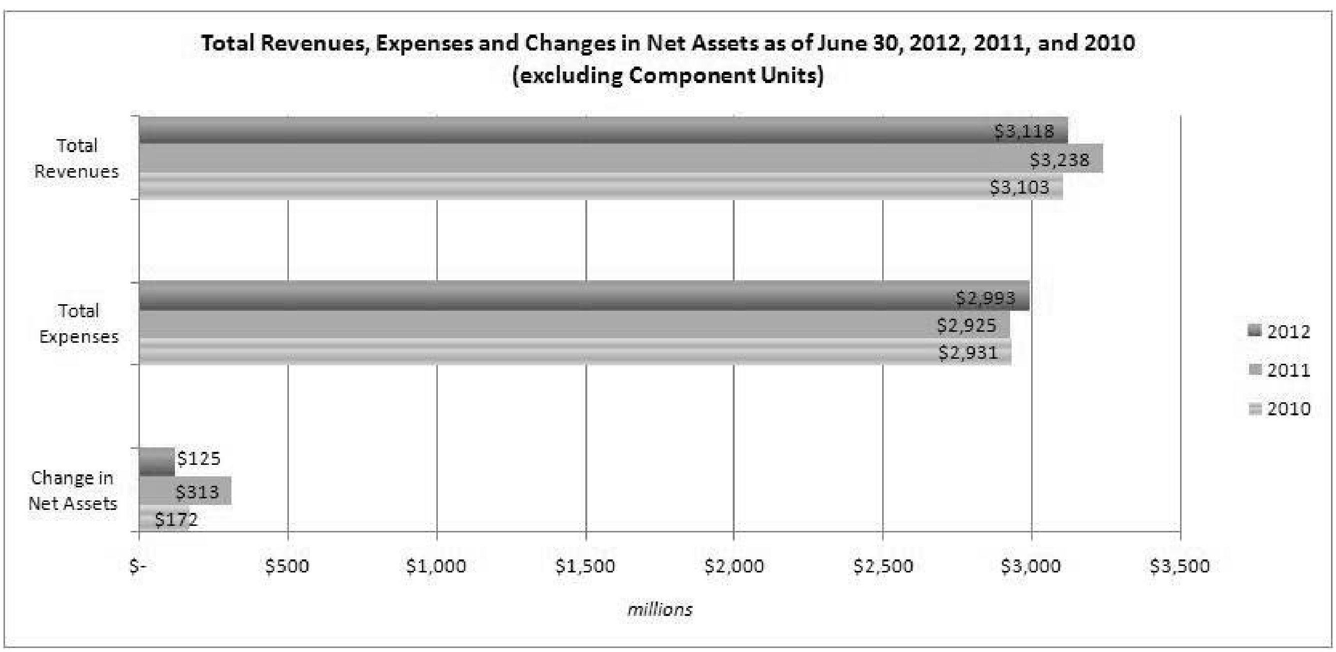
The University's financial position remains strong with assets of \$5.2 billion and liabilities of \$1.8 billion as of June 30, 2012 compared to assets of \$5.0 billion and liabilities of \$1.7 billion as of June 30, 2011. Net Assets, the difference between total assets and total liabilities, increased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

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



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

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



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

Consolidated Statements of Net Assets

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

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

Condensed Statement of Net Assets
(in thousands)

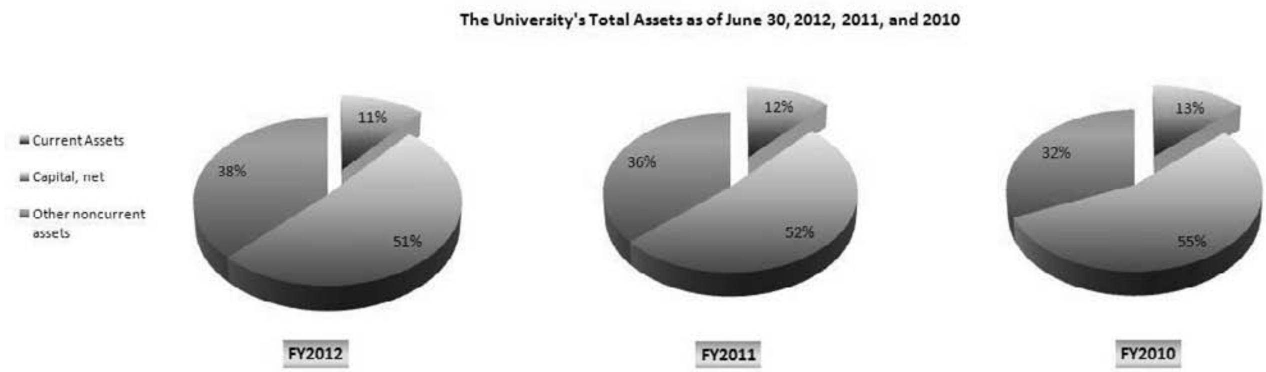
	2012	2011	2010
Assets			
Current assets	$ 585,161	$ 590,555	$ 598,999
Noncurrent assets	1,971,938	1,830,151	1,436,397
Capital assets, net	2,696,951	2,605,072	2,531,864
Total assets	5,254,050	5,025,778	4,567,260
Liabilities			
Current liabilities	432,135	428,407	488,549
Noncurrent liabilities	167,583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

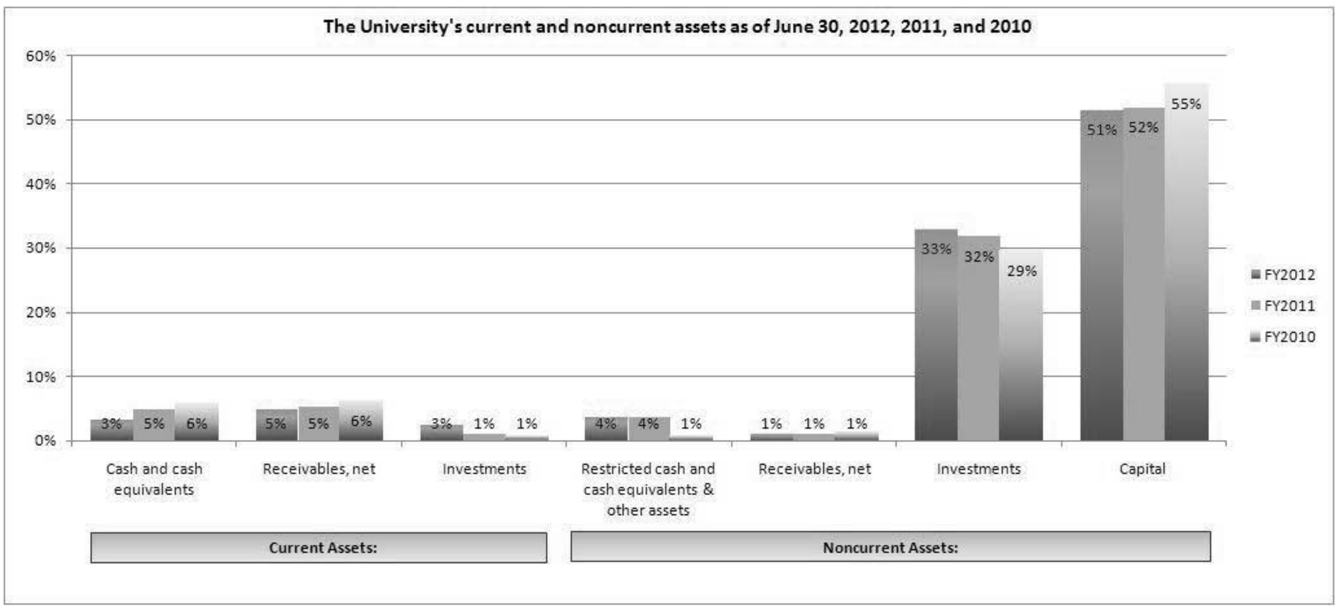
Assets

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

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

The following chart illustrates the composition of total assets:





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

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

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

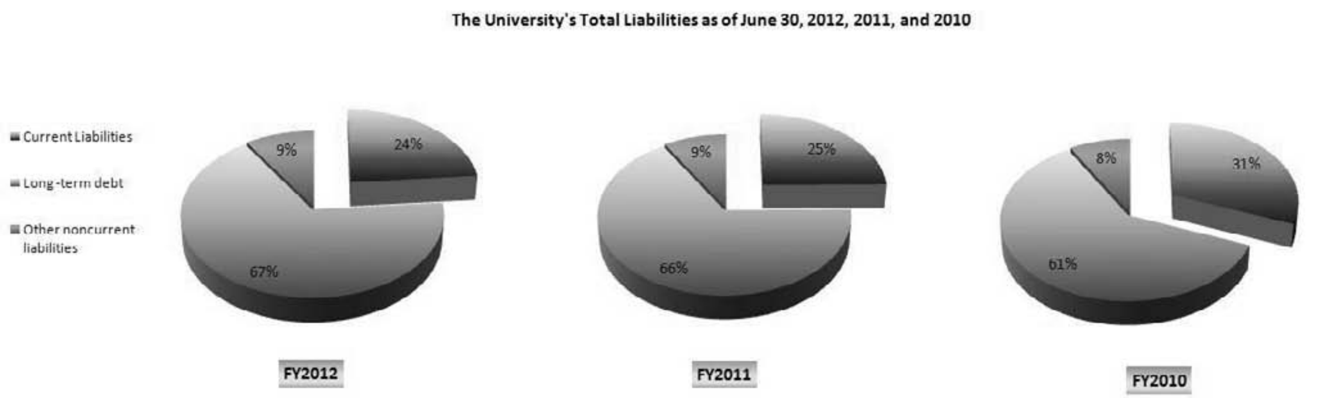
Subsequent to the issuance of the consolidated financial statements as of and for the year ended June 30, 2011, the University identified adjustments, which resulted in a net overstatement of beginning Unrestricted Net Assets and an overstatement of Investments. The University determined that at the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

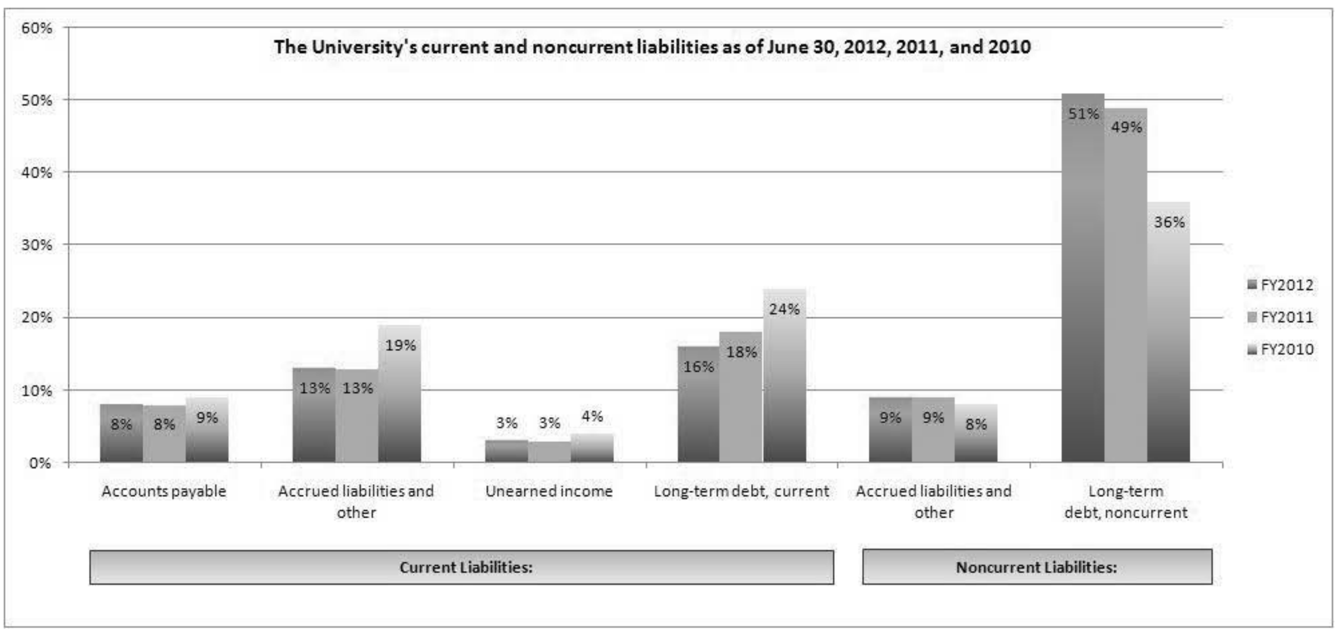
Liabilities

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

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

The following chart illustrates the composition of total liabilities:





The University's current and noncurrent liabilities on June 30, 2012, 2011, and 2010 (in thousands)							
				Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
	2012	2011	2010	Amount	Percent	Amount	Percent
Current liabilities							
Accounts payable	$ 144,073	$ 141,091	$ 134,400	$ 2,982	2.1%	$ 6,691	5.0%
Accrued liabilities and other	228,360	227,498	293,774	862	0.4%	(66,276)	(22.6%)
Unearned income	59,702	59,818	60,375	(116)	(0.2%)	(557)	(0.9%)
Long-term debt, current	293,941	305,514	377,501	(11,573)	(3.8%)	(71,987)	(19.1%)
Total current liabilities	726,076	733,921	866,050	(7,845)	(1.1%)	(132,129)	(15.3%)
Noncurrent liabilities							
Accrued liabilities and other	167,259	148,213	130,943	19,046	12.9%	17,270	13.2%
Unearned income *	324	497	674	(173)	(34.8%)	(177)	(26.3%)
Long-term debt, noncurrent	932,448	839,905	578,863	92,543	11.0%	261,042	45.1%
Total noncurrent liabilities	1,100,031	988,615	710,480	111,416	11.3%	278,135	39.1%
Total liabilities	$ 1,826,107	$ 1,722,536	$ 1,576,530	$ 103,571	6.0%	$ 146,006	9.3%

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

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

Net Assets

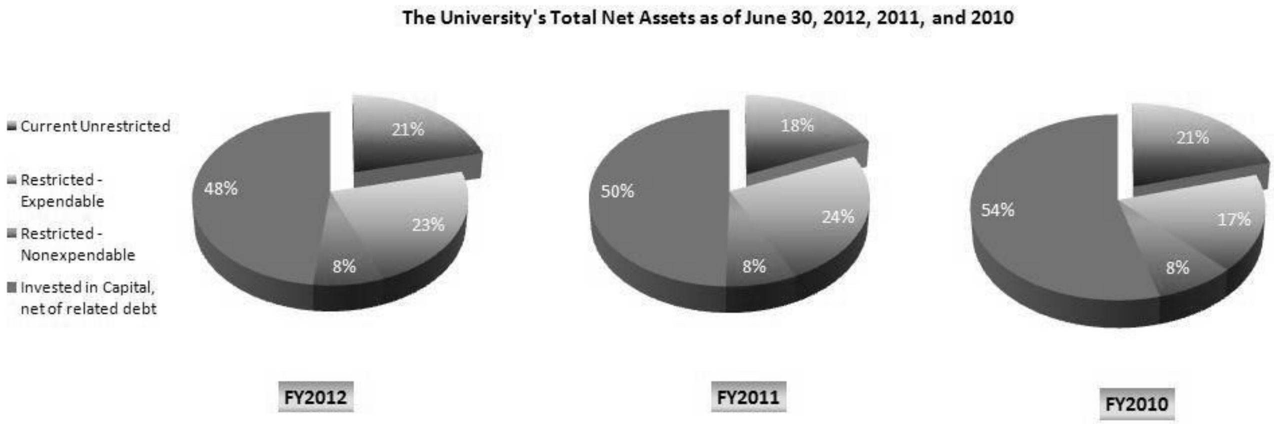
Net assets represent the residual value of the University's assets after deducting liabilities and consist of the following four classifications:

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

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

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

The following chart illustrates the composition of total net assets:

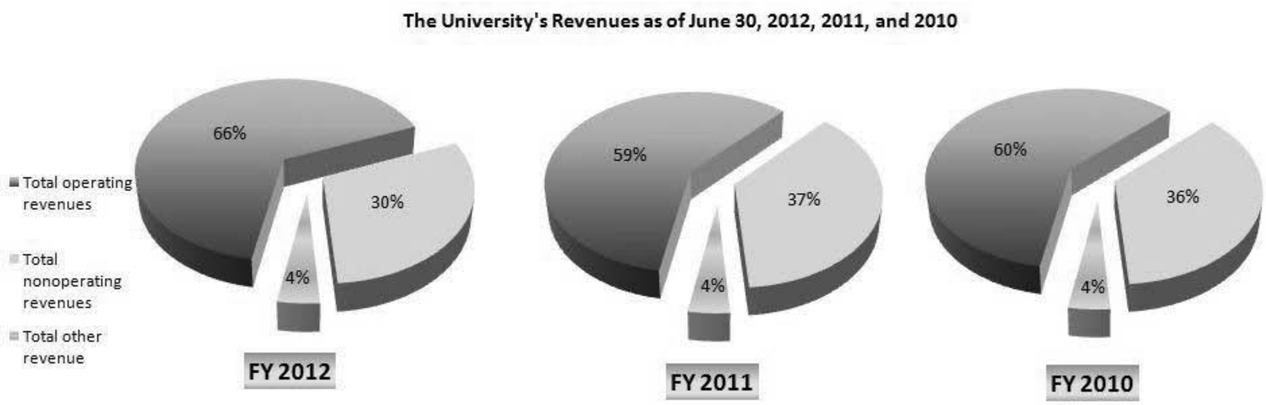


The University's total net assets on June 30, 2012, 2011, and 2010 *(in thousands)*							
				Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
	2012	2011	2010	Amount	Percent	Amount	Percent
Unrestricted	$ 727,348	$ 607,364	$ 613,688	$ 119,984	19.8%	$ (6,324)	(1.0%)
Restricted:							
Expendable	784,443	802,858	512,126	(18,415)	(2.3%)	290,732	56.8%
Nonexpendable	265,156	253,609	242,541	11,547	4.6%	11,068	4.6%
Invested in capital assets, net of related debt	1,650,996	1,639,411	1,622,375	11,585	0.7%	17,036	1.1%
Total net assets	$ 3,427,943	$ 3,303,242	$ 2,990,730	$ 124,701	3.8%	$ 312,512	10.4%

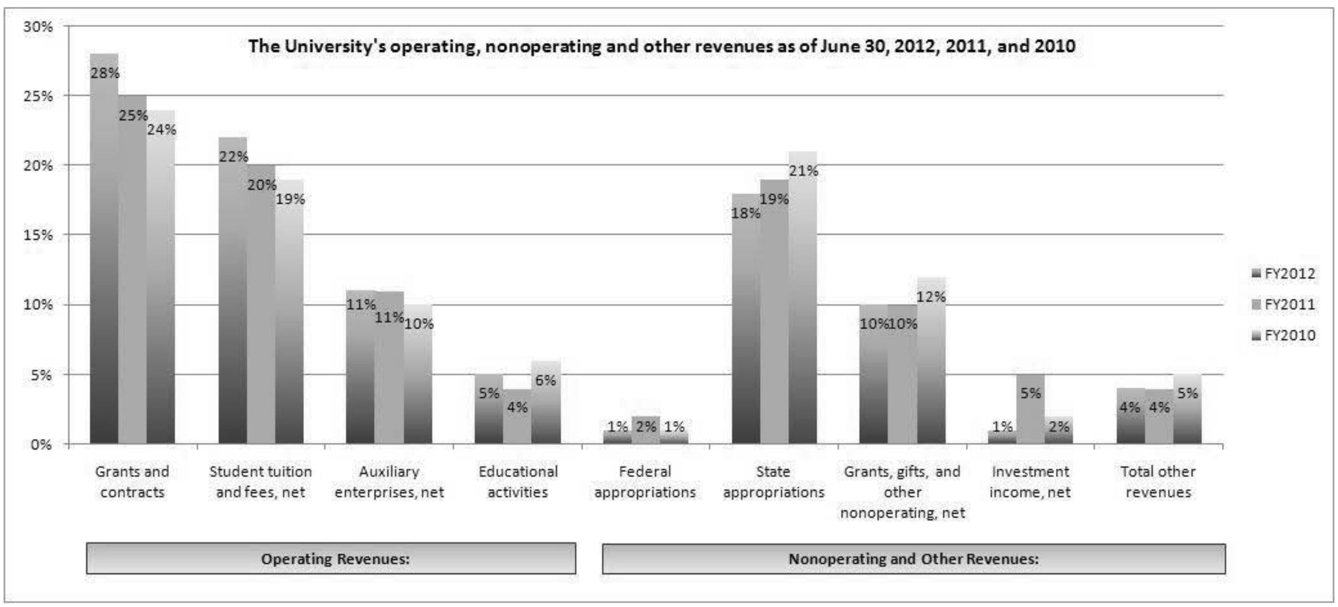
Restricted expendable net assets decreased $18.4 million in fiscal year 2012 compared to an increase of $290.7 million in fiscal year 2011 due to changes in market value related to endowments.

Consolidated Statements of Revenues, Expenses and Changes in Net Assets

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets present the institution's operating, nonoperating, and capital and endowment-related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. Operating revenues are those generated by the University's principal ongoing operations such as tuition, sponsored research grants and contracts, and sales and services provided by the University's educational and self-supporting auxiliary units. State appropriations are reported as nonoperating revenues, as are gifts and other revenues for which the University does not give equal value in exchange for the resources received. As of June 30, 2012, operating revenues were 66 percent and 59 percent of total revenues for fiscal year 2012 and 2011, respectively.



The University's Revenues as of June 30, 2012, 2011, and 2010
Total operating revenues
Total nonoperating revenues
Total other revenue
66%
30%
4%
FY 2012
59%
37%
4%
FY 2011
60%
36%
4%
FY 2010



The University's operating, nonoperating and other revenues as of June 30, 2012, 2011, and 2010
30%
25%
20%
15%
10%
5%
0%
28%
25%
24%
22%
20%
19%
11%
11%
10%
5%
4%
6%
1%
2%
1%
18%
19%
21%
10%
10%
12%
1%
5%
2%
4%
4%
5%
Grants and contracts
Student tuition and fees, net
Auxiliary enterprises, net
Educational activities
Federal appropriations
State appropriations
Grants, gifts, and other nonoperating, net
Investment income, net
Total other revenues
Operating Revenues:
Nonoperating and Other Revenues:
FY2012
FY2011
FY2010

The University's operating, nonoperating and other revenue for the years ended June 30, 2012, 2011, and 2010 (in thousands)							
				Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
	2012	2011	2010	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 858,810	$ 817,045	$ 746,870	$ 41,765	5.1%	$ 70,175	9.4%
Student tuition and fees, net	696,278	634,042	576,363	62,236	9.8%	57,679	10.0%
Auxiliary enterprises, net	351,571	345,537	324,068	6,034	1.7%	21,469	6.6%
Educational activities	162,096	119,830	200,751	42,266	35.3%	(80,921)	(40.3%)
Other operating revenue *	162	2,606	2,304	(2,444)	(93.8%)	302	13.1%
Total operating revenues	2,068,917	1,919,060	1,850,356	149,857	7.8%	68,704	3.7%
Nonoperating revenues							
Federal appropriations	15,145	69,416	64,948	(54,271)	(78.2%)	4,468	6.9%
State appropriations	572,075	623,300	651,350	(51,225)	(8.2%)	(28,050)	(4.3%)
Grants, gifts, and other nonoperating, net	322,010	319,755	333,762	2,255	0.7%	(14,007)	(4.2%)
Investment income, net	36,895	180,865	54,801	(143,970)	(79.6%)	126,064	230.0%
Total nonoperating revenues	946,125	1,193,336	1,104,861	(247,211)	(20.7%)	88,475	8.0%
Total other revenues	103,353	122,732	147,576	(19,379)	(15.8%)	(24,844)	(16.8%)
Total revenues	$ 3,118,395	$ 3,235,128	$ 3,102,793	$ (116,733)	(3.6%)	$ 132,335	4.3%

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

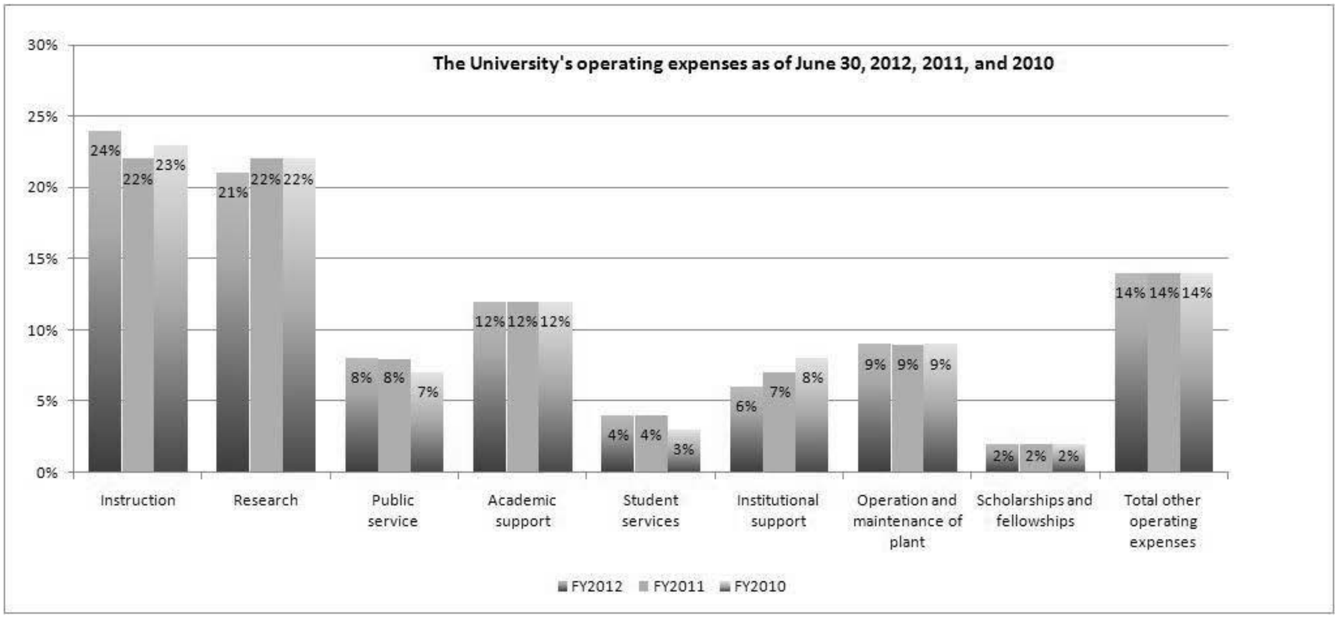
Total revenues decreased in fiscal year 2012 by $116.7 million predominately due to decreases in investment income due to market fluctuations. The decreases were partially offset by increases in operating revenues. Effective September 30, 2011, the American Recovery and Reinvestment Act (ARRA) program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

State appropriations decreased to $572.1 million in fiscal year 2012 from $623.3 million in fiscal year 2011. The decrease of $51.2 million or 8.2 percent was predominately due to a decrease in the appropriation base. State appropriations, in addition to other sources of unrestricted revenue (tuition and educational and auxiliary activities) and nonoperating grants, funded a number of University priorities including competitive compensation plans for faculty and staff; various academic initiatives; enhancement of services to students including technology improvements; upgrades to the financial aid process and freshman seminars; and increases in facilities costs.

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of $143.0 million, $147.6 million, and $126.0 million, and grants and gifts for capital purposes of $31.3 million, $44.8 million, and $41.0 million in fiscal years 2012, 2011, and 2010, respectively.

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

Total Operating Expenses



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

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

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

Consolidated Statements of Cash Flows

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

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

As illustrated in above table, the University's cash and cash equivalents decreased $63.5 million due to the use of funds by operating activities, investing activities and capital and related financing activities, partially offset by cash inflows from noncapital financing activities. The cash used by capital and financing activities decreased $186.0 million as a result of reduced proceeds from new bond issuances. During fiscal year 2012, the University issued $138.2 million in new bond issuances compared to $534.6 million in fiscal year 2011. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling $546.1 million and $615.1 million, grants totaling $174.7 million and $192.3 million and gifts total $142.2 million and $147.1 million in 2012 and 2011, respectively. Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year funded a portion of the University's equipment needs and ongoing renovation and construction initiatives.

Investing Activities

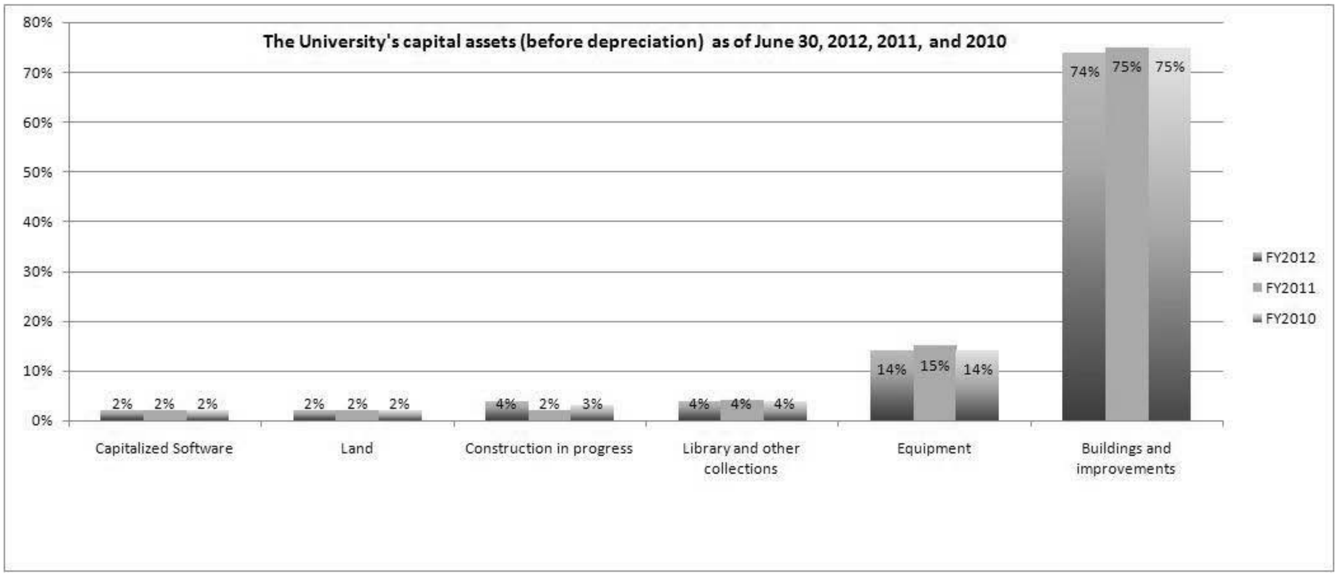
The University's endowment funds are invested to preserve the inflation-adjusted value of the endowment and to maximize total return within acceptable risk parameters. These objectives are benchmarked over three- to five-year periods.

Long-term endowment and other investments included a decrease from net unrealized losses on the endowment and other investments of $39.2 million in fiscal year 2012 compared to an increase of $122.6 million in fiscal year 2011. In addition, decreases of $47.0 million and $48.4 million in 2012 and 2011, respectively, related to annual distributions of the endowment to departments, partially offset by reinvested endowment earnings.

To provide a relatively stable level of support for endowed programs, a specified percentage rate based on a five-year, moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.5 percent in fiscal years 2012 and 2011.

Capital and Debt Activities

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



The University's capital asset categories (before depreciation) for the years ended June 30, 2012, 2011, and 2010 *(in thousands)*							
				Increase (Decrease)			
				From 2011 to 2012		From 2010 to 2011	
	2012	2011	2010	Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	$ 3,760,552	$ 3,655,566	$ 3,471,517	$ 104,986	2.9%	$ 184,049	5.3%
Equipment	721,675	718,422	663,474	3,253	0.5%	54,948	8.3%
Library and other collections	191,117	174,965	169,334	16,152	9.2%	5,631	3.3%
Construction in progress	186,973	100,413	140,347	86,560	86.2%	(39,934)	(28.5%)
Land	90,189	87,416	85,218	2,773	3.2%	2,198	2.6%
Software and other intangibles	116,422	106,879	100,617	9,543	8.9%	6,262	6.2%
Total capital assets (gross)	$ 5,066,928	$ 4,843,661	$ 4,630,507	$ 223,267	4.6%	$ 213,154	4.6%

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

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

Fiscal year 2012 activity included the issuance of the second tranche of debt related to the Biomedical Science Research Facilities Funding Program established for the renovation and expansion of the University's Biomedical Discovery District. Total combined proceeds of $77.2 million from the special purpose revenue bonds, Series 2011B, and general obligation taxable bonds, Series 2011C, will be used to fund a portion of the costs of construction and completion of a new building devoted to cancer and cardiovascular research and associated infrastructure within the Biomedical Discovery District.

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

Factors Affecting Future Economic Conditions

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

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

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

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

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

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

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

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011) (in thousands)

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

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011) (in thousands)

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

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011) (in thousands)

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

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011) (in thousands)

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

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011) (in thousands)

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

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011) (in thousands)

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

See notes to consolidated financial statements.

University of Minnesota
Component Units - Statement of Activities
Year ended June 30, 2012
(with summarized information for the year ended June 30, 2011) (in thousands)

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

See notes to consolidated financial statements.

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

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

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

See notes to consolidated financial statements.

University of Minnesota
Consolidated Statements of Cash Flows (Excluding Component Units)
Years Ended June 30, 2012 and 2011 (in thousands)

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities	2012	2011
Operating loss	$ (879,449)	$ (966,964)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	183,875	163,689
Changes in assets and liabilities		
Receivables, net	25,053	(3,005)
Inventories	547	(1,029)
Prepaid and other items	(5,848)	(3,210)
Accounts payable	(13,064)	10,849
Accrued liabilities	31,076	(52,616)
Unearned income	(1,978)	4,337
Net cash used by operating activities	$ (659,788)	$ (847,949)

Noncash Investing, Capital, and Financing Actvities		
Unrealized gains (losses) on investments	$ (40,153)	$ 116,646
Capital assets on account	43,323	34,491
Contribution of capital assets	3,344	4,388
Amortization of bond discount/premium	3,390	1,945
Capital assets acquired with capital lease	1,896	1,769
Gain on retirement of debt	-	792

Cash and Cash Equivalents at End of Year		
Cash and cash equivalents	$ 167,751	$ 243,093
Restricted cash and cash equivalents	187,769	175,939
Total cash and cash equivalents at end of year	$ 355,520	$ 419,032

See notes to consolidated financial statements.

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

Organization

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

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

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

Reporting Entity

The financial reporting entity for the University of Minnesota includes the financial results of the five campuses and, as required under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units—An Amendment of GASB Statement No. 14* (GASB 39), its legally separate component units. The component units are included in the University's reporting entity because of the significance of their operational or financial relationships with the University or its other component units.

Blended Component Units—The University has two component units that provide services entirely for the University's own benefit. As a result, GASB 39 requires blended presentation—combining the component units and University financial information together, displayed as one entity.

RUMINCO, Ltd.

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

UMore Development Limited Liability Company (LLC)

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

Discretely Presented Component Units—The University's financial statements include the financial data of several tax-exempt component units. They are reported in separate columns on separate pages. GASB 39 requires discrete presentation of component units when either the resources held by these entities can only be used by, or for the benefit of, the University or its component units; or the component units are closely related to, or financially integrated with the University.

University of Minnesota Foundation

The University of Minnesota Foundation (UMF) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts to benefit the University of Minnesota. The Board of Trustees of the UMF consists of between 30 and 45 members and includes the president of the University of Minnesota. One fourth of the members of the Board of Trustees are appointed by the University. Although the UMF is an independent organization, the majority of resources that it holds and invests, including income from its investments, is restricted by donors to the activities of the University.

During fiscal years 2012 and 2011, the UMF distributed $130,558 and $121,930, respectively, to the University. Complete financial statements for the University of Minnesota Foundation can be obtained from the UMF office, McNamara Alumni Center, 200 Oak Street S.E., Suite 500, Minneapolis, MN 55455.

Minnesota Medical Foundation

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

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

Minnesota Landscape Arboretum Foundation

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

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

Minnesota 4-H Foundation

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

During fiscal years 2012 and 2011, the Minnesota 4-H Foundation distributed $1,013 and $1,354, respectively, to the University. Complete financial statements for the Minnesota 4-H Foundation can be obtained from the Minnesota 4-H Foundation office, McNamara Alumni Center, 200 Oak Street S.E., Suite 270B, Minneapolis, MN 55455.

University of Minnesota Alumni Association

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

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

University Gateway Corporation

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

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

University of Minnesota Physicians

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

During fiscal years 2012 and 2011, UMPhysicians distributed $79,061 and $67,294, respectively, to the University. Complete financial statements for University of Minnesota Physicians can be obtained from the Chief Financial Officer, 720 Washington Ave S.E., Suite 200, Minneapolis, MN 55414.

Component Units

With the exception of UMore Development Limited Liability Company (LLC), the University's component units are nonprofit organizations, organized under IRS Code Section 501(c)(3). These units report under Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial report for these differences. The component units' financial data has, however, been aggregated into like categories for presentation purposes and is shown in these statements in thousands, although in all cases except the University of Minnesota Physicians, the separately issued component units' financial statements are not rounded.

Financial Statement Presentation

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

Basis of Accounting

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

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

Significant Accounting Policies

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

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

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

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

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

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

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

The following schedule summarizes the useful lives and capitalization thresholds:

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	-
Library and reference books	10	-
Permanent right-of-way easements (intangible asset)	Indefinite	-

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

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

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

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

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

- **Restricted**:

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

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

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

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

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

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

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

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

- **Nonoperating revenues**: Revenues that represent nonexchange activities. The primary sources of these revenues are federal and state appropriations, gifts, capital grants, federal and state financial aid grants (such as Pell and Supplemental Educational Opportunity Grants), and other nonexchange grants and contracts. Although the University relies upon these revenue sources to fund the cost of operations, the grantor or donor is not the direct recipient of the goods or services delivered under the grant or gift terms. Insurance recovery proceeds are also classified as nonoperating revenues as part of other nonoperating revenues, net, which total $740 and $1,642 for fiscal years 2012 and 2011, respectively.

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

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

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

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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

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

Management is in the process of evaluating whether these GASB statements will be applicable to the University and the impact these statements may have on the University's financial statements.

2. Cash and Investments

Summary

The University maintains centralized management of substantially all of its cash and investments which are held in several investment pools. Each pool has a specific set of guidelines designed to meet its respective investment objectives within risk parameters established for that pool. Securities held in these portfolios are exposed to various types of risk such as credit, interest rates, foreign currency and other capital market risks. Material changes in the value of securities subsequent to June 30, 2012 could affect the market values reported in the consolidated financial statements.

The following table summarizes cash and investments, including RUMINCO, Ltd., a wholly-owned captive insurance company, as of June 30, 2012:

	Temporary Investment Pool	Consolidated Endowment Fund	Group Income Pool	Separately Invested Funds and Other	Invested Assets Related to Indebtedness	RUMINCO, Ltd. Insurance Subsidiary	Total
Cash and cash equivalents	$ 165,013	$ 136	$ 109		$ 2,176	$ 317	$ 167,751
Short-term investments	133,586						133,586
Total current assets	298,599	136	109		2,176	317	301,337
Restricted cash and cash equivalents					187,769		187,769
Investments—Securities	652,496	251,963		$ 40			904,499
Investments—Other		718,494	44,284	26,019		32,374	821,171
Total noncurrent investments	652,496	970,457	44,284	26,059		32,374	1,725,670
Total cash and investments	$ 951,095	$ 970,593	$ 44,393	$ 26,059	$ 189,945	$ 32,691	$ 2,214,776

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

	Temporary Investment Pool	Consolidated Endowment Fund	Group Income Pool	Separately Invested Funds and Other	Invested Assets Related to Indebtedness	RUMINCO, Ltd. Insurance Subsidiary	Total
Cash and cash equivalents	$ 235,631	$ 3,888	$ (341)		$ 3,634	$ 281	$ 243,093
Short-term investments	49,993				2,272		52,265
Total current assets	285,624	3,888	(341)		5,906	281	295,358
Restricted cash and cash equivalents					175,939		175,939
Investments—Securities	526,895	228,162	7,570	$ 40			762,667
Investments—Other		736,250	36,725	28,049		32,164	833,188
Total noncurrent investments	526,895	964,412	44,295	28,089		32,164	1,595,855
Total cash and investments	$ 812,519	$ 968,300	$ 43,954	$ 28,089	$ 181,845	$ 32,445	$ 2,067,152

Authorizations

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

Temporary Investment Pool (TIP)—Short-Term Reserves—The TIP funds are intended to meet the current obligations of the University. The investment objectives for the TIP are to maximize current income and investment returns, maintain sufficient liquidity for University operations, and provide backup liquidity for certain University short-term or variable-rate debt obligations. The pool may invest in money market funds, corporate obligations, and U.S. government and agency securities, within specified credit quality and term constraints.

The Board's Investment of Reserves policy allows for up to 30 percent of the pool to be invested in the Consolidated Endowment Fund (CEF). As of June 30, 2012 and 2011, the market value of the TIP assets invested in the CEF was $112,611 and $108,661, respectively. These assets are reported in the total cash and investments of the CEF. In addition, the Investment of Reserves policy guidelines include the following: average duration of four years or less for the entire pool and maximum duration of seven years for any individual holding; average credit quality of A1/A+ or better; no use of leverage; and credit ratings of investment grade defined as Baa3/BBB- or better by Moody's or Standard & Poor's. Retention of a lower rated security requires approval by the president or delegate.

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

Consolidated Endowment Fund (CEF)—The CEF represents the pooling of funds from both public and private sources for which donor intent, law, or institutional decree determines the principal amount that must be invested in perpetuity or other specified time frames. The funds are invested to achieve an inflation-adjusted rate of return, after expenses are deducted, that exceeds the current payout rate of 4.5 percent of the average of the endowment's trailing month-end market values for the prior 60 months. The Board reserves the authority to approve asset allocation ranges for this pool.

Minnesota State Chapter 309, Section 745, governs the expenditure or accumulation of endowment funds, where the intent of a donor expressed in the gift instrument, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposed, and duration for which the endowment fund is established. For fiscal years ended June 30, 2012 and 2011, $10,179 and $34,570, respectively, in net appreciation over the prior fiscal year was made available for departmental spending in unrestricted net assets.

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

The CEF is a diversified portfolio that utilizes external investment managers. The CEF assets are held in separately managed accounts, commingled pools, and limited partnerships (LP). Each of these fund structures have different risk and return characteristics. LP investments are privately negotiated transactions with limited liquidity. LPs are required to conduct an external audit annually in accordance with the Financial Accounting Standards Board or the International Accounting Standards Board. As of June 30, 2012 and 2011, the University had unfunded commitments to LPs of $166,641 and $228,667, respectively, which are commitments that have not been drawn down by the general partners.

Group Income Pool (GIP)—Long-Term Reserves—The GIP represents assets invested for the benefit of various university units for long-term capital purposes. The investment objective of the GIP is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use. The GIP is invested in fixed-income funds through external investment managers. Additionally, up to 50 percent of the pool can be invested in the CEF. As of June 30, 2012 and 2011, the market value of the GIP assets invested in the CEF was $10,622 and $10,249, respectively. These assets are reported in the total cash and investments of the CEF.

Separately Invested Funds (SIF) and Other—The SIF represent restricted assets which include future licensing or royalty interests and equity in companies that are established based on University owned technology, as well as, minerals and future mineral rights assigned to the University from privately owned real estate. All of these assets have been assigned a nominal value. Investments defined as other represent investments made by the University in its own intellectual property, such as copyrights, patents, and trademarks, which are developed with the primary purpose of generating royalty income from its licensing to external customers. These other investments are valued at cost, which is based on certain filing and legal expenses incurred to establish the University's legal ownership.

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

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

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

Components of Net Investment Income (Loss)—Components of the net investment income (loss) include interest, dividends, realized and unrealized gains or losses and all changes in fair market value on investments.

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

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

Investment Risks

Credit and Interest Rate Risk—Credit risk is the risk that company specific events may cause a bond issuer to default, which results in a failure to repay principal or interest owed to the University in a timely manner. The Board's Investment of Reserves policy affecting the assets of the TIP limits investments in fixed income instruments to those with credit ratings of investment grade as a means of managing its exposure to market value losses arising from credit deterioration or defaults.

Interest rate risk is the risk that changes in interest rates will adversely affect the market value of the University's fixed income investments. The Board's Investment of Reserves policy affecting assets in the TIP limits investment duration as a means of managing its exposure to market value losses arising from increasing interest rates.

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2012:

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

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

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

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the exposure of the University's investment in a single issuer. The Board's Endowment Fund policy prohibits investing directly in individual issuers in the CEF and places limits on exposures to individual managers and funds. The Board's Investment of Reserves policy places limits on concentrations to a single corporate issuer in the TIP of no more than 5 percent. As of June 30, 2012, and 2011, all securities held in the pools were in compliance with policy guidelines.

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

The following table summarizes the University's exposure to foreign currency risk, stated in U.S. dollar equivalents, as of June 30, 2012 and 2011:

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

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

Financial Institution Credit Risk

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

Investments—Custodial credit risk is the risk that, in the event of failure of the counterparty, the University may not be able to recover the value of its investments held in custodial accounts. The University currently has custodial accounts at State Street Bank & Trust Company and JPMorgan Chase. As of June 30, 2012 and 2011, the market value of investments held in the custodial accounts was $785,352 and $565,421 in TIP and $28,770 and $40,612 in CEF, respectively.

3. Other Asset and Liability Information

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

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

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

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

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

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

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

	Current	Noncurrent	Total
State and federal appropriations	$ 19,352		$ 19,352
Sponsored grants and contracts	105,373		105,373
Notes receivable	32	$ 518	550
Student receivables	38,816		38,816
Trade receivables	86,951		86,951
Accrued interest	3,088		3,088
Other	17,113	44	17,157
Allowance for uncollectible accounts	(11,934)		(11,934)
Total receivables, net	$ 258,791	$ 562	$ 259,353

	Current	Noncurrent	Total
Student loans receivable	$ 11,404	$ 54,354	$ 65,758
Allowance for uncollectible accounts	(2,681)	(543)	(3,224)
Student loans receivable, net	$ 8,723	$ 53,811	$ 62,534

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

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

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

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

4. Capital Assets

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

		Beginning balance		Additions		Transfers		Retirements		Ending balance
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

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

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

5. Long-Term Debt

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

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

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

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

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

***Net unamortized premium/discount is included in beginning and ending balances.**
****Interest rate swaps borrowing was reduced in its entirety due to termination of swaps in FY2011.**

General Obligation Bonds

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

On October 13, 2011, the University issued General Obligation Taxable Bonds, Series 2011C in the par amount of $19,335 as the second tranche of the University Supported Biomedical Science Research Facilities Funding Program. The proceeds will be used to fund a portion of the costs of construction of one of the biomedical science research facilities. The 2011C bonds were issued at coupon rates of 0.9 – 4.6 percent with a discount of $13.

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

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

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

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

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

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

All general obligation bonds are secured by the full faith and credit of the University and subject to mandatory sinking fund requirements set forth in the prospectuses. In addition, the bonds are tax-exempt with the exception of the Series 2010D, 2009D, 2009B, and 2001B bonds.

Special Purpose Revenue Bonds

On October 13, 2011, the University issued Special Purpose Revenue Bonds, Series 2011B in the par amount of $52,485 as the second tranche of the State Supported Biomedical Science Research Facilities Funding Program. The proceeds will be used to fund a portion of the costs of construction of one of the biomedical science research facilities. The 2011B bonds were issued at coupon rates of 3.0 – 5.0 percent with a premium of $5,408. State of Minnesota legislation provides for an annual appropriation to reimburse the University for the annual debt service on these bonds.

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

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

Commercial Paper Notes

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

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

Auxiliary Bonds

The University's auxiliary bonds are secured by the revenues, net of expenses, of the auxiliary activity to which they relate, debt-service subsidy grants provided by the U.S. Department of Housing and Urban Development, and the full faith and credit of the University. Student housing and food services net revenues of $2,270 in fiscal year 2012, and $2,909 in fiscal year 2011, were pledged as security to pay total debt service payments of $930 and $1,286 for auxiliary revenue bonds in fiscal years 2012 and 2011, respectively. Revenues are pledged until fiscal year 2014, at which time the debt obligation on these auxiliary revenue bonds will be satisfied.

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

Infrastructure Development Bond Obligations

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

Capital Leases and Other Debt

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

Interest Rate Swaps

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

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

The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2012, are as follows:

Associated bond issue	Nature of association	Notional amounts	Effective date	Fixed rate	Variable rate	Swap type	Fair value	Swap maturity date
CP, Series 2005A	Freestanding	$ 70,000	8/27/1997	4.98%	SIFMA Index*	Pay fixed and receive variable	$ (14,902)	8/27/2017
CP, Series 2005A	Freestanding	37,500	8/28/1997	4.88%	LIBOR Index**	Pay fixed and receive variable	(267)	8/28/2012
CP, Series 2005A	Freestanding	37,500	9/1/1997	4.90%	LIBOR Index**	Pay fixed and receive variable	(431)	7/1/2012
		$ 145,000					$ (15,600)	

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

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

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

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

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

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

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

Variable-rate bond interest payments and net swap payments will vary depending on current market conditions from week to week. Using rates as of June 30, 2012, debt service requirements of the University's outstanding long-term debt obligations and net swap payments for the next five years and in subsequent five-year periods are as follows:

	Bonds and obligations	Commercial paper notes	Capital lease and other	Total principal	Interest	Net interest rate swaps	Total obligations
Fiscal year ending June 30							
2013	$ 45,998	$ 246,350	$ 1,593	$ 293,941	$ 45,532	$ 3,714	$ 343,187
2014	47,786		1,407	49,193	41,956	3,423	94,572
2015	48,442		1,249	49,691	39,860	3,423	92,974
2016	49,970		1,013	50,983	37,747	3,423	92,153
2017	51,714		474	52,188	35,533	3,967	91,688
2018-2022	244,829		252	245,081	143,200		388,281
2023-2027	203,285			203,285	93,258		296,543
2028-2032	189,982			189,982	42,899		232,881
2033-2037	92,044			92,044	10,020		102,064
	$ 974,050	$ 246,350	$ 5,988	$ 1,226,388	$ 490,005	$ 17,950	$ 1,734,343

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

Defeased Bonds

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

Associated bond issue	Refunding date	Amount defeased	Refunded amount	Amount outstanding on June 30, 2012	Bond call date
General obligation bonds 1982 Series A	4/23/1985	$ 112,635	$ 65,000	$ 29,600	12/1/2016
General obligation bonds 1996 Series A	10/2/2005	159,000	159,000	124,000	7/1/2021

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

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

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

Arbitrage

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

6. Pension Plans

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

Defined Benefit Plans

Cost-sharing plans, multiple-employer plans

United States Government (Federal) Retirement Plans

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

Civil Service Retirement System (CSRS)

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

Civil Service Retirement System Offset Retirement (CSRS Offset)

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

Federal Employees Retirement System (FERS)

The Federal Employees Retirement System (FERS) is a federal program that provides retirement benefits for approximately 114 employees who work for the University. In general, all civilian service employees newly hired on or after January 1, 1984, are mandatorily covered by FERS. In addition, employees rehired after January 1, 1984, who had less than five years of prior civilian service as of December 31, 1986, are mandatorily covered by FERS. Using Social Security as a base, FERS provides an additional defined benefit and a voluntary thrift savings plan. An employee who receives a new appointment can often elect FERS coverage voluntarily during the first six months of the appointment. FERS provides full retirement benefits at the "Minimum Retirement Age" (MRA) with 30 years of service, at age 60 with 20 years of service, or at age 62 with 5 years of service. The MRA is 55 for those born before 1948, and incrementally increases to 57 for those born in or after 1970. Deferred retirement benefits are available at or after the MRA with 10 years of service at reduced benefit levels. The annuity formula generally provides 1.0 percent of the employee's average salary (based on the highest three consecutive years of salary) multiplied by the number of years of creditable service. If retirement is at age 62 or later with at least 20 years of service, a factor of 1.1 percent is used rather than 1.0 percent.

State of Minnesota Retirement Plans

Public Employee Police and Fire Fund (PEPFF)

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

State Employees' Retirement Fund (SERF)

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

Funding Policy

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

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

Single-employer plan

Supplemental Benefits Plan (SBP)

The Supplemental Benefits Plan (SBP) is a plan sponsored by the University pursuant to the Board of Regents governing authority. This plan is in addition to the Faculty Retirement Plan (FRP), where faculty members employed prior to 1963 and female participants employed prior to July 1, 1982, may be eligible to receive additional benefits. SBP is designed to provide additional retirement benefits for certain groups of individuals who participated in the FRP, but who, due to plan design, have retirement income levels that are significantly lower than those of current participants. It accounts for 198 eligible participants. SBP is funded in an amount equal to or greater than the amount required under statute. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. The eligible population under the plan is a closed group. An internal faculty and staff retirement program report is prepared on a fiscal year basis. Questions regarding the SBP may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

Funding Policy

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

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

Annual Pension Cost and Net Pension Obligation

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

Three-Year Trend Information

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

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

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

Actuarial Methods and Assumptions

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

Defined Contribution Plans

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

Description of Plans and Contribution Information

Faculty Retirement Plan (FRP)

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

University of Minnesota Optional Retirement Plan (ORP)

The Optional Retirement Plan (ORP) is a voluntary retirement savings/investment plan covered under Section 403(b) of the Internal Revenue Code. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. The plan is funded mainly through employee pre-tax contributions. However, the University may make discretionary contributions for select staff based on employment contracts. Approximately 4,200 full- and part-time employees contribute to this plan.

University of Minnesota Section 457 Deferred Compensation Plan

The 457 Deferred Compensation Plan is a voluntary retirement savings plan authorized under Section 457 of the Internal Revenue Code. This plan is funded exclusively through employee pre-tax contributions. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. Approximately 870 full- and part-time employees contribute to this plan.

University of Minnesota 415(m) Retirement Plan

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

Contributions Made for Fiscal Year 2012

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

7. Related Organization

The University is responsible for appointing 8 members of the 15 member Board of Directors of UCare Minnesota, a licensed nonprofit health maintenance organization (HMO) that provides medical services for its members. The University's accountability for this organization, however, does not extend beyond making Board appointments. The dean of the University of Minnesota Medical School and the head of the University's Department of Family Medicine and Community Health appoint six board members; two members are automatically appointed by virtue of the University positions that they hold.

8. Commitments and Contingencies

Construction projects in progress, principally buildings, approximated $186,973 on June 30, 2012. The estimated cost to complete these facilities is $358,449, which is to be funded from plant fund assets and $148,571 in appropriations available from the State of Minnesota as of June 30, 2012.

The University owns steam production facilities that produce steam for heating and cooling the Twin Cities campus, which by agreement are managed, operated, and maintained by an unaffiliated company. The original agreement was for five years and began May 17, 2004. In fiscal year 2009, the contract was extended for five years, with a contract end date of May 2014. Under the agreement, the University must make minimum fixed payments for certain operating and maintenance costs, as well as contingent payments based upon performance requirements.

The University is obligated under various operating leases for the use of real property and equipment. Included in the leases for real property is an agreement between Gateway and the University of Minnesota for a rent obligation through September 2014. Total operating lease expenditures for the years ended June 30, 2012 and 2011, were $21,246 and $18,217, respectively, of which $17,784 and $15,449 were for real property and $3,462 and $2,767 were for equipment, respectively.

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

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

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

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

9. Self-Insurance Programs

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

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

The University's medical (health) coverage for faculty and staff and their dependents is a self-insured program (UPlan). Under UPlan Medical, the University pays claims and establishes reserves, and the administration of the program is handled by two independent administrators: Medica for medical plan administration, and Prime Therapeutics for pharmacy benefit management. A medical conversion carrier provides policies to the University under which terminated employees are able to convert their UPlan coverage to single coverage once their COBRA rights expire. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $800,000 in a single year. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded.

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

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

The University's medical (health) coverage for eligible students and their dependents is a self-insured program (Student Health Benefit Plan). Under the Student Health Benefit Plan, the University pays claims and establishes reserves, and the administration of the program is handled by Blue Cross and Blue Shield of Minnesota. The administrator offers medical conversion policies to eligible University students who are able to convert their SHBP coverage to single coverage after graduation. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $250,000 in a single year in addition to aggregate stop-loss coverage for claims totals over 115 percent of plan year claims. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded. Effective September 1, 2005, the University negotiated a new student health plan for the Academic Health Center (AHC-Student Health Benefit Plan). The plan is self-insured and the health carrier is Blue Cross and Blue Shield of Minnesota. An estimated claims liability ensures that funds are available to cover claims up to the point where stop-loss coverage begins. The AHC Plan also offers self-insured Dental Plan preventive benefits at Boynton Health Service without a third party administrator.

Effective July 1, 2010, the University changed its medical coverage for eligible Medical Residents and Fellows from a fully insured program to a self-insured program. Under the Medical & Resident medical plan, the University pays claims and establishes reserves. The program is administered by HealthPartners. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded. The Medical & Resident group also offers a fully insured Dental Benefit Plan through Delta Dental.

Reported liabilities as of June 30, 2012, are shown below:

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

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

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

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

10. Termination Benefits

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

Contract Buyouts

University contract buyouts apply when an employee resigns his or her duty and the University has agreed to pay additional compensation based on the contractual employment agreement. Benefits outstanding as of June 30, 2012 and 2011 are paid in the subsequent fiscal year and affect only the Twin Cities campus. Due to the nature and timing of the payments, the outstanding liability is not discounted and reflects current cost level amounts due.

Retirement Incentives

These incentives provide medical and dental benefits and lump sum payments to eligible employees as defined in the Retirement Incentive Option (RIO) Program. On May 9, 2008, the Board of Regents approved the reinstatement of the second RIO Program (RIO2), an opportunity for employees to elect voluntary retirement to minimize involuntary workforce reductions. RIO2 covered Faculty, Professional and Administrative (P&A), Civil Service, and Radio and Television Broadcast Technician employees who were actively employed at 75 percent time or greater; held an appointment term of nine months or greater on the last day of employment; met the specific age and years of service requirements; and were receiving UPlan benefits. Eligible employees were able to enroll in the program during the time period of May 15 through September 26, 2008, or no later than the effective date of retirement, whichever occurred first. Effective June 2, 2008, represented bargaining unit staff consisting of Minnesota Teamsters Public and Law Enforcement Employees Union, Law Enforcement Labor Services, Inc., and AFSCME Units 4, 6, and 7 could elect to enroll in RIO2 through September 26, 2008, or no later than the effective date of retirement, whichever occurred first. RIO2 provided a maximum of 36 months of medical and dental subsidy following an employee's last day of employment. The subsidy and coverage is the same as if the retiree had remained employed. The University's contribution was based on the employee's coverage level, work location, and permanent residence as of the last day of employment. The outstanding liability is calculated using the discounted present value of expected future benefit payments based on the projection of benefits, an initial healthcare cost trend rate of 6.85 percent and a discount rate of 4.0 percent. Benefits provided impact all University campuses.

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

Severance Lump-Sum Payouts and Continuing Healthcare Subsidies

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

Vacation

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

Academic Professional and Administrative (P&A) Contracts

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

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

Civil Service Contracts

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

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

Faculty Contracts

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

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

Graduate Assistant Contracts

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

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

Represented Bargaining Unit Staff Contracts

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

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

11. Other Postemployment Benefits

Description of Plan

The University administers the UPlan—a self-insured, single-employer, defined benefit healthcare plan. It is a partnership between the University and its employees to provide quality, cost-effective health benefits to employees, retirees, and their families. Pursuant to the University's Board of Regents governing authority, non-Medicare retirees and former employees can purchase medical and dental insurance coverage. The University also provides a continuation of pay and benefits beyond active employment under the Academic Disability Plan (ADP) for Faculty and Academic Professional and Administrative (P&A) employees after three months of medical leave. The benefit provision process is initiated through the Benefits Advisory

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

Funding Policy

The University has established that a former employee must pay the entire premium for continuation coverage, except as otherwise provided in a collective bargaining agreement or personnel policy. Non-Medicare retirees can purchase medical and dental insurance coverage at the full premium rate applicable to active employees, and COBRA participants can purchase coverage at 102 percent of the full group rate. Eligible participants under the ADP receive full healthcare benefits at employee cost for up to two years from disability onset and beyond that point disabled participants would pay the full premium as if they were retirees. The self-insured portion of the ADP program also provides disability income and retirement contributions for up to 9 months—months 4 through 12 after disability onset. The following premium rates were in effect for fiscal year 2012:

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

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

Annual OPEB Cost and Net OPEB Obligation

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

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

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

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

Fiscal year ended	Annual OPEB cost	Employer contribution	Percentage of annual OPEB cost contributed	Net OPEB obligation
6/30/2012	$24,800	$5,944	24.0%	$62,987
6/30/2011	19,939	9,290	46.6%	44,131
6/30/2010	18,999	8,041	42.3%	33,482

Funded Status and Funding Progress

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

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

The actuarial accrued liability (AAL) is the present value of projected future benefits earned by employees to date. Whereas, the unfunded actuarial accrued liability (UAAL) is the AAL less any cash, investments, and other resources the University is holding to specifically fund the AAL. Included in the AAL is a change of $2,940 due to the impact of the RIO Program being reinstated during fiscal year 2008. The change in the liability is a result of eligible retirees electing retirement under the RIO Program and choosing to continue UPlan coverage after the RIO Program benefits are fulfilled.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of the occurrence of events far into the future. Some of the specific assumptions that were taken into consideration when calculating the actuarial valuations were participant age, years of service, salary increases, benefit election patterns, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, shown as required supplementary information following the notes to the financial statements, presents the results of the University's OPEB valuation as of June 30, 2012.

Actuarial Methods and Assumptions

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

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

Valuation date	7/1/2012
Actuarial cost method	Entry age
Amortization method	Level Dollar, Open Group
Remaining amortization period	20 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	4.00%
Projected Payroll growth	4.00%
Benefit increase	N/A
Assumed inflation rate	3.00%
Healthcare cost trend rate	
Initial rate	6.85%
2nd year rate	6.70%
Ultimate rate	5.50%
Year ultimate rate reached	2060

12. Operating Expenses by Natural Classification

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

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

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

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

13. Subsequent Events

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

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

14. Component Units

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

Summary of Significant Accounting Policies

University of Minnesota Foundation

Contributions

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

Assets Held in Charitable Trusts

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

Gift Annuity Agreements

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

Beneficial Interest in Trusts

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

Minnesota Medical Foundation

Contributions

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

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

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

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

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

Split-Interest Agreements

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

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

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

Interest in Charitable Trusts

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

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

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

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

Interest in Charitable Lead Trusts

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

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

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

Investments

University of Minnesota Foundation

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

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

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

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

The investments on June 30, 2012, are summarized as follows:

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

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

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

Net asset values provided by external investment managers for alternative structures include estimates, appraisals, assumptions, and methods that are reviewed by management. It is possible that the redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements. Changes in market conditions and the economic environment may impact the net asset value of the funds and, consequently, the fair value of UMF's interests in the funds. UMF has $1,039,499 of investments in alternative structures which are reported at net asset value as a practical expedient. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if UMF were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

Minnesota Medical Foundation

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

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

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

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

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

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

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

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

Fair Value Measurements

University of Minnesota Foundation

FASB Accounting Standards Codification 820 (ASC 820), *Fair Value Measurement*, established a three-tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

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

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

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

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

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

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

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

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

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

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

	Beginning balance at July 1, 2011	Change in carrying value of trusts	Net realized and unrealized gains (losses)	Purchases	Sales	Ending balance at June 30, 2012	Net change in unrealized gains (losses) included in change in net assets for the period relating to investments held at June 30, 2012
Beneficial interest in trusts	$ 27,243	$ (456)				$ 26,787	$ (456)

Minnesota Medical Foundation

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

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

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. Level 1 includes common and preferred stock traded on active exchanges, such as the New York Stock Exchange, as well as overnight repurchase agreements, short term commercial paper, money market mutual funds, and U.S. Treasury obligations that are traded by dealers or brokers in active over-the-counter markets.

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

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

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

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

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

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

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

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

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

Securities Lending

Minnesota Medical Foundation

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

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

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

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

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

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

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

Net Assets

University of Minnesota Foundation

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

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

Temporarily Restricted Net Assets

Temporarily restricted net assets are available as of June 30, 2012, for the following purposes.

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

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

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

Permanently Restricted Net Assets

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

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

Minnesota Medical Foundation

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

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

Temporarily Restricted Net Assets

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

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

Permanently Restricted Net Assets

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

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

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

Guarantee Agreement and Financing Agreements

University Gateway Corporation

Guarantee Agreement

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

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

Financing Agreements

Bonds payable

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

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

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

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

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

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

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

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

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

Aggregate annual maturities are approximately as follows:

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

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

Required Supplementary Information

Required Supplementary Information (RSI) (Unaudited)
Years ended June 30, 2012 and 2011 (in thousands)

Schedule of Funding Progress for the SBP Plan

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)—entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2011	$2,106	$5,263	$3,157	40.02%	$731	431.87%
7/1/2010	2,621	5,578	2,957	46.99%	951	310.94%
7/1/2009	3,252	6,083	2,831	53.46%	1,345	210.48%

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

Schedule of Funding Progress for OPEB

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL)—entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
7/1/2012	$ -	$116,182	$116,182	0.00%	$1,222,548	9.50%
7/1/2011	-	99,135	99,135	0.00%	1,175,527	8.43%
7/1/2010	-	88,936	88,936	0.00%	1,189,710	7.48%

Additional information related to OPEB is provided in Note 11.

Supplemental Schedules

for the Years Ended June 30, 2012 and 2011

Deloitte.

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

The Board of Regents
University of Minnesota
Minneapolis, Minnesota

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

Deloitte & Touche LLP

October 31, 2012

Statements of Net Assets by Campus

June 30, 2012 (in thousands)

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

Statements of Net Assets by Campus

June 30, 2011 (in thousands)
(Unaudited)

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

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

Year ended June 30, 2012 (in thousands)

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

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

Year ended June 30, 2011 (in thousands)
(Unaudited)

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

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE STATE SUPPORTED BOND ORDER

A brief description of the State Supported Bond Order and the definition of certain terms used therein and herein are contained in this APPENDIX C. All references to the State Supported Bond Order are qualified in their entirety by reference to the State Supported Bond Order.

Definitions of Certain Terms

"Additional Bonds" means the Series 2013C Bonds, the Series 2011B Bonds and any Bonds, other than the Series 2010A Bonds, issued pursuant to the State Supported Bond Order.

"Biomedical Science Research Facilities Funding Program Act" means Minnesota Statutes, Sections 137.61 to 137.65.

"Biomedical Science Research Facility" means a facility located on the campus of the University to be used as a research facility and laboratory for biomedical science and biomedical technology. A hospital licensed under Minnesota Statutes, Sections 144.50 to 144.56 is not a biomedical science research facility.

"Bond Account" means the debt service account established for the Bonds by the State Supported Bond Order.

"Bond Counsel" means any firm of nationally recognized bond counsel experienced in matters relating to tax-exempt financing, selected by the University.

"Bondowner", "owner" or *"Holder"* or any similar term, when used with reference to a Bond or Bonds, means any Person who shall be the registered owner of any Bond.

"Bonds" means the Series 2010A Bonds, the Series 2011B Bonds, the Series 2013C Bonds and any other Additional Bonds.

"Business Day" means any day other than a Saturday, Sunday or day on which the New York Stock Exchange or banking institutions are authorized or required by law or executive order to be closed for commercial banking purposes in New York or Minnesota.

"Code" means the Internal Revenue Code of 1986, as heretofore and hereafter amended.

"Commissioner" means the Commissioner of the Department of Management and Budget of the State.

"Defeasance Escrow" means an escrow fund established in accordance with the State Supported Bond Order with respect to any Defeased Bonds.

"Defeasance Obligations" means non-callable direct obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Defeased Bonds" means any Bonds as to which the obligations of the University with respect thereto have been discharged in accordance with the State Supported Bond Order.

"Opinion of Bond Counsel" means a written opinion of Bond Counsel.

"Outstanding" when used in reference to Bonds, means as of a particular date, all Bonds authenticated and delivered under the State Supported Bond Order except: (i) any Bond cancelled by the Paying Agent at or before

such date; (ii) any Bond or portion thereof, paid or deemed paid; and (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the State Supported Bond Order.

"Person" means an individual, a corporation, a partnership, an association, a joint stock company, a joint venture, a trust, any unincorporated organization, a limited liability company, a governmental body or a political subdivision, a municipality, a municipal authority or any other group or organization of individuals.

"Program Agreement" means the Biomedical Science Research Facilities Funding Program Agreement dated as of August 15, 2010, between the State and the University.

"Project" means the acquisition, construction, improvement, expansion, repair or rehabilitation of all or a part of a structure, facility, infrastructure or equipment necessary for a Biomedical Science Research Facility approved by the Regents.

"Project Costs" means the sum of all obligations incurred, paid, or to be paid that are reasonably required for the design, construction and completing of a Project, including but not limited to (i) site acquisition; (ii) soil and environmental testing, surveys, estimates, plans and specifications, supervisions of construction, and other engineering and architectural services; (iii) payments under construction contracts and payments for performance bonds; and (iv) purchase and installation of furniture, fixtures and equipment.

"Record Date" means with respect to the Series 2013C Bonds, the fifteenth day of the month preceding a date on which an interest payment is due, whether or not such day is a Business Day.

"Regents" means the Board of Regents of the University.

"Series 2010A Bonds" means the Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2010A of the University, issued by the University under the State Supported Bond Order.

"Series 2011B Bonds" means the Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2011B of the University, authorized to be issued as Additional Bonds under the State Supported Bond Order.

"Series 2013C Bonds" means the Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2013C of the University, authorized to be issued as Additional Bonds under the State Supported Bond Order.

"State" means the State of Minnesota.

"State Revenues" means the amounts payable to the University by the State pursuant to Minnesota Statutes, Section 137.64, subdivision 2.

"University" means Regents of the University of Minnesota.

Appointment of Paying Agent; Payments by University to Paying Agent

U.S. Bank National Association, St. Paul, Minnesota, is appointed to serve as the initial Paying Agent with respect to the Bonds. On or before each interest payment date of any Bonds, the Treasurer of the University shall transmit to the Paying Agent, to the extent available in the Bond Account, moneys sufficient to pay all principal and interest due on the Bonds. The University agrees in the State Supported Bond Order to deposit all State Revenues in the Bond Account.

Issuance of Additional Bonds

The Series 2013C Bonds are being issued as Additional Bonds pursuant to the State Supported Bond Order.

In addition to the Series 2010A Bonds, the Series 2011B Bonds and the Series 2013C Bonds, one or more series of Additional Bonds payable from the Bond Account, may at any time be issued by the University under the State Supported Bond Order to finance up to seventy-five percent (75%) of the Project Costs of one or more Projects, pursuant to an instrument executed by the University supplementing the State Supported Bond Order and setting forth the terms of the Additional Bonds. The provisions of the State Supported Bond Order shall apply to any series of Additional Bonds except to the extent specified in the State Supported Bond Order or in the instrument supplementing the State Supported Bond Order and setting forth the terms of said series of Additional Bonds. No series of Additional Bonds may be issued until the Commissioner has made the certification for the Project to be financed by the series of Additional Bonds required by Minnesota Statutes, Section 137.64, subdivision 1, and the University has certified to the Commissioner the amount of annual payments of principal and interest required to service said series of Additional Bonds, and the actual amount of the State's annual payment to the University under Minnesota Statutes, Section 137.64, subdivision 2. The aggregate principal amount of Additional Bonds (including the principal amount of the Series 2011B Bonds and the Series 2013C Bonds) may not exceed $107,600,000, and the State's annual payments to the University under Minnesota Statutes, Section 137.64, subdivision 2, must be sufficient to pay when due the principal and interest on all Bonds Outstanding following the issuance of such Additional Bonds.

Security Provisions

In the State Supported Bond Order the University pledges all of the State Revenues received by the University to the payment of the principal of and interest on the Bonds as the same become due. Neither the full faith and credit nor any funds or revenues of the University (aside from the State Revenues) is pledged to the obligation of the University to pay the principal of and the interest on the Bonds as the same come due. By the State Supported Bond Order the Bond Account is established on the books and records of the University as a separate bookkeeping account. The University covenants in the State Supported Bond Order to deposit all of the State Revenues immediately upon receipt into the Bond Account and payments due on the Bonds shall be made from amounts in the Bond Account. By the State Supported Bond Order the University pledges the Bond Account and any amounts deposited therein to the payment of the principal of and interest on the Bonds as the same become due. Any amounts earned from the investment of State Revenues or the investment of any other funds in the Bond Account shall not be deposited into or accounted for as funds of the Bond Account, but instead shall be deposited into and treated as part of the University's Interest Income account or such other University account as may be designated in advance from time to time by the University's Treasurer.

The University agrees in the State Supported Bond Order that it will faithfully perform at all times any and all agreements, undertakings, stipulations and provisions contained in the State Supported Bond Order, in any and every Bond, and in all proceedings of the University pertaining thereto. The University represents and warrants in the State Supported Bond Order that it is authorized under the laws of the State of Minnesota to issue the Bonds and to execute, deliver and perform the State Supported Bond Order, and that all action on its part for the issuance of the Bonds and the execution, delivery and performance of the State Supported Bond Order has been effectively taken, and that the Bonds are and will be legal, valid, binding and enforceable special purpose revenue obligations of the University according to the import thereof.

In the State Supported Bond Order the University covenants to comply with the Program Agreement and to take all such action, and not omit to take any action, on the part of the University necessary to assure full and timely receipt, in accordance with the Biomedical Science Research Facilities Funding Program Act and the Program Agreement, of State Revenues.

Procedures for Payment of Principal and Interest on Bonds

When Bonds are not in the book-entry only system, interest shall be payable on each interest payment date of any Bonds by check mailed to the registered owner at his or her address as it appears on the registration books kept by the Paying Agent at the close of business on the Record Date. Except as provided above, payment of the principal of all Bonds shall be made upon the presentation and surrender of such Bonds at the principal office of the Paying Agent as the same shall become due and payable. The principal of and interest on the Bonds shall be payable in lawful money of the United States of America.

Paying Agent

The effect of registration of the ownership of the Bonds by the Paying Agent and the rights and duties of the University and the Paying Agent with respect thereto shall be as follows:

(a) *Bond Register*. The Paying Agent shall keep at its principal office a bond register (the "Bond Register") in which the Paying Agent shall provide for the registration of ownership of Bonds and the registration of transfers and exchanges of Bonds entitled to be registered, transferred or exchanged.

(b) *Transfer of Bonds*. Upon surrender for transfer of any Bond duly endorsed by the owner thereof or accompanied by a written instrument of transfer, in form satisfactory to the Paying Agent, duly executed by the owner thereof or by an attorney duly authorized by the owner in writing, the Paying Agent shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Bonds of a like series, stated maturity, aggregate principal amount, interest rate and authorized denomination, as requested by the transferor. The Registrar may, however, close the books for registration of any transfer after the Record Date preceding each interest payment date until such interest payment date.

(c) *Exchange of Bonds*. Whenever any Bonds are surrendered by the owner for exchange the Paying Agent shall authenticate and deliver one or more new Bonds of a like series, stated maturity, aggregate principal amount, interest rate and authorized denomination, as requested by the owner or the owner's attorney, in writing.

(d) *Cancellation*. All Bonds surrendered upon any transfer or exchange shall be promptly canceled by the Paying Agent. The University may at any time deliver to the Paying Agent for cancellation any Bonds previously issued and authenticated under the State Supported Bond Order which the University may have acquired in any manner whatsoever, and all Bonds so delivered by the University shall be promptly canceled by the Paying Agent.

(e) *Improper or Unauthorized Transfer*. When any Bond is presented to the Paying Agent for transfer, the Paying Agent may refuse to transfer the same until it is satisfied that the endorsement on such Bond or separate instrument of transfer is valid and genuine and that the requested transfer is legally authorized. The Paying Agent shall incur no liability for the refusal, in good faith, to make transfers which it, in its judgment, deems improper or unauthorized.

(f) *Persons Deemed Owners*. The University and the Paying Agent shall treat the person in whose name any Bond is at any time registered in the Bond Register as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon the registered owner's written order shall be valid and effectual to satisfy and discharge the University's liability upon such Bond to the extent of the sum or sums so paid.

(g) *Taxes, Fees and Charges*. For every transfer or exchange of Bonds, the Paying Agent may impose a charge upon the owner thereof sufficient to reimburse the Paying Agent for any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange.

(h) *Mutilated, Lost, Stolen and Destroyed Bonds*. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Paying Agent shall deliver a new Bond of like series, stated maturity, principal amount, interest rate and authorized denomination in exchange and substitution for and upon cancellation of any such mutilated Bond or in lieu of and in substitution for any such Bond destroyed, stolen or lost, upon the payment of the reasonable expenses and charges of the Paying Agent in connection therewith; and, in the case of a Bond destroyed, stolen or lost, upon filing with the Paying Agent of evidence satisfactory to it that such Bond was destroyed, stolen or lost, and of the ownership thereof, and upon furnishing to the Paying Agent of an appropriate bond or indemnity in form, substance and amount satisfactory to it, in which both the University and the Paying Agent shall be named as obligees. All Bonds so surrendered to the Paying Agent shall be canceled by it and evidence of such cancellation shall be given to the University. If the mutilated, destroyed, stolen or lost Bond has already matured or been called for redemption, it shall not be necessary to issue a new Bond prior to payment.

Covenants with Respect to Tax Exemption of Series 2013C Bonds

By the State Supported Bond Order, the University covenants and agrees with the owners from time to time of the Series 2013C Bonds that it will not take or permit to be taken or omit to take or cause to be taken by any of its officers, employees or agents any action the taking or omission of which, as applicable, would cause the interest on any Bonds to become subject to taxation under the Code and the Treasury Regulations promulgated thereunder (the "Regulations") as in effect at the time of issuance of the Series 2013C Bonds or subject to the inclusion in taxable net income of individuals, estates or trusts for Minnesota income tax purposes, and covenants to take any and all actions within its powers to ensure that the interest on the Series 2013C Bonds will not become subject to taxation under the Code and the Regulations or includable in taxable net income of individuals, estates and trusts for Minnesota income tax purposes.

Defeasance of Bonds

The University may at any time discharge its obligations with respect to payment of the principal of and interest on any Bonds, subject to the provisions of law authorizing and regulating such action, by depositing irrevocably in escrow, with a bank or trust company qualified by law as an escrow agent for this purpose, cash or Defeasance Obligations, bearing interest payable at such time and at such rates and maturing on such dates as shall be required, without reinvestment, to pay all principal and interest to become due thereon to the maturity thereof, or in the case of Bonds subject to mandatory sinking fund redemption, the applicable mandatory redemption for such Bonds.

The University covenants that prior to the establishment of any Defeasance Escrow it will obtain an opinion from nationally recognized bond counsel to the effect that (i) the establishment of such Defeasance Escrow will not have an adverse effect on the exclusion from gross income of the interest on any Bonds, if any, for United States income tax purposes or from taxable net income of individuals, estates or trusts for Minnesota income tax purposes, and (ii) upon the establishment of the Defeasance Escrow the Bonds secured by such Defeasance Escrow will no longer be Outstanding under the State Supported Bond Order.

If any such deposit is made by the University with respect to less than all of the Bonds of any maturity of a series of Bonds, the Bonds of such series and maturity to be secured by such deposit shall be selected by the University by lot. Upon such deposit with respect to any Bonds, the obligations of the University with respect to the payment of the principal of and interest on such Bonds shall be discharged and such Bonds shall constitute Defeased Bonds and such Defeased Bonds shall be secured thereafter only by the Defeasance Escrow established with respect to such Defeased Bonds.

Supplements and Amendments to the State Supported Bond Order

(a) Without the consent of the owners of any Bonds, the University, may, at any time and from time to time, enter into one or more instruments to supplement the State Supported Bond Order, for any one of the following purposes:

1. To add to the covenants of the University, for the benefit of the owners of the Bonds, or to surrender any right or power herein conferred upon the University; or

2. To provide for the creation and terms of any series of Additional Bonds, as provided in, and subject to the conditions and requirements of, the State Supported Bond Order; or

3. To add to the covenants of the University, for the benefit of the owners of the Bonds or of any series of Bonds, or to surrender any right or power herein conferred upon the University; or

4. To add, modify or eliminate any provision which, in the Opinion of Bond Counsel to the University, it is necessary or desirable to add, modify or eliminate in order to preserve the exemption of interest on any Bonds from federal or State of Minnesota income taxation; or

5. To cure any ambiguity, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under the State Supported Bond Order which shall not be inconsistent with the provisions of the State Supported Bond Order, provided such action shall not adversely affect the interests of the owners of the Bonds then Outstanding.

(b) With the consent of the owners of not less than a majority in aggregate principal amount of the Bonds Outstanding which are affected by such supplement to the State Supported Bond Order, the University may enter into an instrument or instruments supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the State Supported Bond Order or of modifying in any manner the rights of the owners of the Bonds under the State Supported Bond Order; provided, however, that no such instrument shall, without the consent of the Owner of each Outstanding Bond affected thereby,

1. change the maturity of the principal of, or any interest payment date of, any Bond, or reduce the principal amount thereof or the interest thereon, or change the coin or currency in which any Bond or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the maturity thereof, or

2. reduce the percentage in principal amount of the Outstanding Bonds the consent of whose owners is required for any such supplement, or

3. modify any of the provisions of this subsection (b) except to increase any such percentage or to provide that certain other provisions of the State Supported Bond Order cannot be modified or waived without the consent of the owner of each Bond affected thereby.

For all purposes of this subsection (b), Bonds shall be deemed to be "affected" by a supplement to the State Supported Bond Order if such supplement adversely affects or diminishes the rights of owners thereof against the University.

It shall not be necessary for the owners of the Bonds under this subsection (b) to approve the particular form of any proposed supplement to the State Supported Bond Order, but it shall be sufficient if such consent shall approve the substance thereof.

APPENDIX D

PROPOSED FORM OF APPROVING OPINION OF BOND COUNSEL

Regents of the University of Minnesota
Minneapolis, Minnesota

Barclays Capital Inc., as representative
New York, New York

Re: Regents of the University of Minnesota
Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2013C

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Regents of the University of Minnesota (the "University") of its Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2013C in the aggregate principal amount of $35,395,000 (the "Bonds"), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the University in the authorization, sale and issuance of the Bonds, including the Order of the University dated as of September 1, 2010 (the "September 1, 2010 State Supported Bond Order"), as supplemented by a Supplement No. 1 to the September 1, 2010 State Supported Bond Order, dated as of October 1, 2011 (the "October 1, 2011 Supplement"), and by a Supplement No. 2 to the September 1, 2010 State Supported Bond Order, dated as of November 1, 2013 (the "November 1, 2013 Supplement" and, together with the September 1, 2010 State Supported Bond Order and the October 1, 2011 Supplement, the "State Supported Bond Order"), executed by the President and Treasurer of the University, the Biomedical Science Research Facilities Funding Program Act Agreement dated as of August 15, 2010 (the "Biomedical Science Research Facilities Funding Program Act Agreement") between the University and the State of Minnesota (the "State"), acting by and through its Commissioner of the Department of Management and Budget (the "Commissioner"), and the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of the State Supported Bond Order, the Biomedical Science Research Facilities Funding Program Act Agreement and such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds have been duly authorized and issued by the University and are valid and binding special limited obligations of the University, enforceable in accordance with their terms except to the extent to which enforceability thereof may be limited by state or federal laws relating to bankruptcy, reorganization, moratorium, and other laws relating to or affecting the enforcement of creditors' rights. The principal of and interest on the Bonds are payable from specified transfers to be made by the Commissioner from an appropriation from the General Fund of the State (the "State Transfers") pursuant to Minnesota Statutes, Section 137.64 (2), which State Transfers have been validly pledged by the University to the payment of the principal of and interest on the Bonds pursuant to the State Supported Bond Order, but the Bonds are not payable from any other funds of the University. The Bonds are not an indebtedness or other obligation of the State, are not public debt of the State, and the full faith and credit and taxing powers of the State is not pledged for their payment. The appropriation from the General Fund of the State of the State Transfers and the payment by the Commissioner of the State Transfers to the University, does not require any further State or other approval except as expressly provided in Minnesota Statutes, Sections 137.64(1).

2. The Biomedical Science Research Facilities Funding Program Act Agreement has been duly and validly authorized, executed and delivered by the University and, assuming the due authorization, execution and delivery thereof by the State, is in full force and effect and is a valid and binding obligation of the University enforceable in accordance with its terms except to the extent to which enforceability thereof may be

limited by state or federal laws relating to bankruptcy, reorganization, moratorium, and other laws relating to or affecting the enforcement of creditors' rights.

3. Interest on the Bonds (a) is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes; (b) is included in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts; and (d) is included in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of federal alternative minimum tax. The opinions set forth in this paragraph are subject to the condition that the University comply with all the requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The University has covenanted in the State Supported Bond Order to comply with these continuing requirements. Failure of the University to comply with these requirements may result in the inclusion of interest on the Bonds in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal or state tax consequences arising with respect to the Bonds.

Dated this __ day of November, 2013.

Very truly yours,

APPENDIX E

SUMMARY OF CONTINUING DISCLOSURE CERTIFICATE

The Continuing Disclosure Certificate generally described under the caption "CONTINUING DISCLOSURE" of this Official Statement is summarized below. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Continuing Disclosure Certificate.

The Continuing Disclosure Certificate (the "Disclosure Certificate") is being executed and delivered by Regents of the University of Minnesota (herein the "Issuer") in connection with the execution and delivery of the Series 2013C Bonds. The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. The Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners and Beneficial Owners of the Regents of the University of Minnesota Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2013C (the "Series 2013C Bonds") and in order to assist the Underwriters in complying with the Rule (as hereinafter defined).

SECTION 2. Definitions. In addition to the definitions set forth in the Order of the University dated as of September 1, 2010 (the "September 1, 2010 State Supported Bond Order"), as supplemented by a Supplement No. 1 to the September 1, 2010 State Supported Bond Order, dated as of October 1, 2011 (the "October 1, 2011 Supplement"), and by a Supplement No. 2 to the September 1, 2010 State Supported Bond Order, dated as of November 1, 2013 (the "November 1, 2013 Supplement" and, together with the September 1, 2010 State Supported Bond Order and the October 1, 2011 Supplement, the "State Supported Bond Order"), which apply to any capitalized term used in the Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" means any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of the Disclosure Certificate.

"Beneficial Owner" means any person which has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2013C Bonds (including persons holding Series 2013C Bonds through nominees, depositories or other intermediaries).

"Dissemination Agent" means the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by the Disclosure Certificate.

"Notice Events" means any of the events listed in Section 5(a) of the Disclosure Certificate.

"Rule" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" means the State of Minnesota.

"Underwriters" means Barclays Capital Inc. and Dougherty & Company, LLC.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than the December 31 following the end of each of the Issuer's Fiscal Years (presently June 30), commencing with the report for the 2013

Fiscal Year, provide to the MSRB, an Annual Report which is consistent with the requirements of Section 4 of the Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of the Disclosure Certificate; provided that the Comprehensive Annual Financial Report of the State and the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer's Fiscal Year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 5(b).

(b) Not later than fifteen (15) Business Days prior to the date set forth in paragraph (a) above, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in substantially the form attached to the Disclosure Certificate as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the MSRB; and

(ii) (if the Dissemination Agent is other than the Issuer), file a report with the Issuer certifying that the Annual Report has been provided pursuant to the Disclosure Certificate, stating the date it was provided and listing, as recipients of the Annual Report, the MSRB.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or include by reference the following:

(1) The Comprehensive Annual Financial Report of the State for the State's Fiscal Year ending on the previous June 30, prepared by the Commissioner of the Department of Management and Budget in accordance with generally accepted accounting principles for governmental entities as prescribed by the Government Accounting Standards Board as in effect from time to time or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles, noting the variances therefrom and the effect thereof, together with an independent auditor's report prepared with respect thereto by the Office of the Legislative Auditor of the State or other auditing authority designated by State law;

(2) To the extent not included in the financial statements referred to in clause (1) hereof, the numerical and tabular information for such Fiscal Year of the type contained in the Official Statement of the State dated October 24, 2013 with respect to its $769,760,000 General Obligation State Bonds;

(3) The audited financial statements of the Issuer for the Issuer's Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the audited financial statements of the Issuer are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

(4) To the extent not contained in the audited financial statements referred to in clause (1) hereof, numerical and tabular information for such Fiscal Year of the type contained in APPENDIX A to the Official Statement relating to the Series 2013C Bonds, in the following sections or under the following captions:

(a) The section headed "Campuses and Enrollment";

(b) The section headed "Accreditation and Degrees";

(c) The section headed "Degrees Conferred";

(d) The section headed "Freshman Applications, Acceptances and Matriculants at All Campuses";

(e) The section headed "Faculty and Other Employees";

(f) The section headed "Financial Operations";

(g) The section headed "Outstanding Indebtedness";

(h) The section headed "Endowment and Other Investments";

(i) The section headed "Cash and Cash Equivalents";

(j) The section headed "Component Units —Foundations"; and

(k) The section headed "Insurance".

The University has not undertaken in the Disclosure Certificate to provide all information an investor may want to have in making decisions to hold, sell or buy Series 2013C Bonds but only to provide the specific information listed above.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the State, the Issuer or related public entities, which have been submitted to the MSRB, or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

If any part of the information described in clauses (2) or (4) hereof can no longer be generated because the operations of the State or of the University have materially changed or been discontinued, such information need no longer be provided if the Issuer's Annual Report includes a statement to such effect; provided; however, if such operations have been replaced by other State or University operations in respect of which data is not included in the Issuer's Annual Report and the University determines that certain specified data regarding such replacement operations would be a Notice Event, then, from and after such determination, the Issuer's Annual Report shall include such additional specified data regarding the replacement operations. If the Issuer's Annual Report is changed or this Section 4 is amended as permitted by this paragraph or Section 8 hereof, then the next Issuer's Annual Report to be delivered hereunder shall include, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

SECTION 5. Reporting of Notice Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to any of the Series 2013C Bonds, whether relating to the Issuer or otherwise:

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) modifications to rights of holders of the Series 2013C Bonds, if material;

(4) Series 2013C Bond calls, if material, and tender offers;

(5) defeasances;

(6) rating changes;

(7) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Series 2013C Bonds, or other material events affecting the tax-exempt status of the Series 2013C Bonds;

(8) unscheduled draws on the debt service reserves reflecting financial difficulties;*

(9) unscheduled draws on the credit enhancements reflecting financial difficulties;*

(10) substitution of the credit or liquidity providers or their failure to perform;*

(11) release, substitution or sale of property securing repayment of the Series 2013C Bonds, if material;*

(12) bankruptcy, insolvency, receivership or similar event of the Issuer, which for the purposes of the event identified in this clause, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;

(13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) appointment of a successor or additional paying agent or the change of name of a paying agent, if material.

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* Not applicable at date of initial delivery.

(b) If a Notice Event occurs, the Issuer shall provide, in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event, notice of such Notice Event to the MSRB. Notwithstanding the foregoing, notice of Notice Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Series 2013C Bonds pursuant to the State Supported Bond Order.

(c) Any notice of a defeasance of the Series 2013C Bonds shall state whether the Series 2013C Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

SECTION 6. <u>Termination of Reporting Obligation</u>. The Issuer's obligations under the Disclosure Certificate shall terminate upon the legal defeasance or payment in full of all of the Series 2013C Bonds. If such termination occurs prior to the final maturity date of the Series 2013C Bonds, the Issuer shall give notice of such termination in the same manner as for a Notice Event under Section 5(b).

SECTION 7. <u>Dissemination Agent</u>. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to the Disclosure Certificate.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the Issuer may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2013C Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2013C Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the Series 2013C Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event under Section 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in the Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the names of dissemination set forth in the Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Notice Event, in addition to that which is required by the Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by the Disclosure Certificate, the issuer shall have no obligation under the Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Notice Event.

SECTION 10. Default. If the Issuer fails to comply with any provision of the Disclosure Certificate, any Owner or Beneficial Owner of Series 2013C Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under the State Supported Bond Order, and the sole remedy under the Disclosure Certificate for any failure of the Issuer to comply with the Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. A Dissemination Agent shall have only such duties as are specifically set forth in the Disclosure Certificate, and the Issuer agrees to indemnify and save such Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2013C Bonds.

SECTION 12. Beneficiaries. The Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, if any, the Underwriters and Owners and Beneficial Owners from time to time of the Series 2013C Bonds, and shall create no rights in any other person or entity.

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APPENDIX F

THE UNIVERSITY'S BIOMEDICAL DISCOVERY DISTRICT AND THE BIOMEDICAL SCIENCE RESEARCH FACILITIES FUNDING PROGRAM

History of the Biomedical Discovery District

The University's Biomedical Discovery District (the "District") is a cluster of buildings located north of the TCF Bank Stadium on the east bank of the University's Twin Cities Campus. The District facilities provide scientists with flexible space in which to conduct interdepartmental and interdisciplinary research in diseases that constitute some of today's greatest health challenges, including diabetes, cancer, heart disease, emerging infectious diseases, and brain diseases. Existing buildings in the District include the Lions Research Building ("LRB"), the McGuire Translational Research Facility ("MTRF"), the Center for Magnetic Resonance Research ("CMRR"), and the Winston and Maxine Wallin Medical Biosciences Building ("WMBB").

LRB/MTRF – The LRB, the first facility in the District, opened in 1992. Researchers here study hearing, vision and neuroscience. The MTRF, which immediately adjoins the LRB, was completed and put into service in June 2005. The combined facility totals approximately 152,000 gross square feet. MTRF houses the Stem Cell Institute and Center for Infectious Diseases & Microbiology Translational Research. Approximately $25,000,000 of funding for the $37,000,000 MTRF was provided by the State of Minnesota (the "State").

CMRR - The CMRR was established in 1991 to house and support research in in vivo magnetic resonance imaging ("MRI") and magnetic resonance spectroscopy ("MRS"). The existing approximately 40,000 square foot one-story facility is immediately east of the LRB/MTRF and opened in 1997. This facility is currently equipped with seven high-field magnets with magnetic field strengths of 4 Tesla and greater, the most notable being a 16.4 Tesla with a 26cm bore.

Today, the CMRR is one of the world's leading imaging centers, providing instrumentation, expertise, and infrastructure to carry out biomedical research utilizing the unique capabilities provided by ultra high-field MRI and MRS methodology. The central aim of the research conducted in CMRR is non-invasively to obtain functional, physiological, and biochemical information in intact biological systems, and to use this capability to probe biological processes in health and disease.

WMBB – The WMBB opened in December 2009 and is located to the east of the CMRR. This building is devoted to research related to neurodegenerative and neuromuscular diseases, such as ataxia, muscular dystrophy, Parkinson's disease, ALS (Lou Gehrig's Disease), and Alzheimer's disease, and immunology-based treatments for cancer and infectious diseases. It has five occupied stories plus a two-story mechanical penthouse, for a total of approximately 112,000 gross square feet. The building houses thirty-five Principal Investigators ("PIs") from the Center for Memory Research and Care, the Neurodegenerative Disease Group, the Neuromuscular Disease Group, and the Immunology Center. It includes wet laboratories and their associated support spaces such as cold rooms, tissue culture rooms, flow cytometry, and microscopy; offices for PIs and desk space for graduate student and post-doctoral fellows; and bio-safety level 3 laboratory suites. The total cost of the WMBB, including utility infrastructure and certain equipment, was approximately $75,000,000, of which approximately $40,000,000 was funded by the State.

Biomedical Science Research Facilities Funding Program (the "Program")

The 2008 Legislature (the "Legislature") enacted Minnesota Statutes Sections 137.61 to 137.65 (the "Program Act") to:

> "provide for a biomedical science research funding program to further the investment in biomedical science research facilities in Minnesota to benefit the state's economy, advance the biomedical technology industry, benefit human health, and facilitate research collaboration between the University of Minnesota and other private and public institutions in this state."

Pursuant to the Program Act, annual appropriations are to be made to the University for up to 75% of project costs for Program projects that have been approved by the University's Board of Regents ("Program Projects"). The principal amount of bonds issued by the University to be paid by State appropriations may not exceed $219,000,000. The Program Projects may include site acquisition and preparation and construction, improvement, expansion, repair, or rehabilitation of structures, facilities, infrastructure, and equipment for biomedical science research facilities. The Program Act requires that the University pay at least 25% of project costs and states that it may not use tuition revenue to do so. The University and the State have entered into the Biomedical Science Research Facilities Funding Program Act Agreement dated as of August 15, 2010 (the "Program Agreement"), which establishes certain procedures and provides for certain certifications required under the Program Act.

Program Goals

The goals of the Program are as follows:

- to advance the State's leadership in biomedical science by:

  –finding new cures and treatments;

  –recruiting and retaining top research faculty;

  –capturing a greater share of research funding; and

  –fueling collaborative ventures between the public and private sectors;

- to enhance the research capability and productivity of the University's Academic Health Center by:

  –expanding research space, thereby attracting new recruits and retaining existing talent; and

  –clustering faculty, support staff, laboratories and equipment from high priority programs to complement research strengths; and

- to expand the State's economy by:

  –creating construction jobs in the short term; and

  –creating jobs in the biomedical industry in the long term.

Program Projects

Execution of the Program Projects began in 2009 with a major expansion of the CMRR ("Program Project 1"). It continued in 2011 with the construction of a new building containing specially designed facilities devoted to research in cancer and cardiovascular disease, as well as a research commons and associated infrastructure (the "Cancer/Cardiovascular Research Building," or "CCRB") within the District (collectively, "Program Projects 2 & 3"). The fourth and final building to be funded under the Program is a Microbiology Research Facility ("Program Project 4"). When all Program Projects are completed, the District will consist of 700,000 square feet of research space equipped for use by approximately 1,200 researchers and staff.

Program Project 1: Expansion and Renovation of the CMRR

Program Project 1, a major expansion and renovation of the CMRR, added 67,000 gross square feet to the previous facility in order to expand space for magnetic imaging research while continuing to house interdisciplinary groups in close proximity to each other. The expansion accommodates two new magnets having magnetic field strengths of 7 and 10.5 Tesla. Construction and renovation work on Program Project 1 was complete by December 2010, except that final delivery of the 10.5 Tesla magnet is scheduled for January 2014, with installation occurring subsequent to delivery at a cost of approximately $4,900,000. The expansion also included a cyclotron production facility; additional office space for staff and researchers; expanded laboratory, vivarium, and storage space, and additional patient facilities in close proximity to the main entry lobby.

Program Project 1 was primarily funded by a total of approximately $52,000,000 in Program debt - 75% from the proceeds of the University's Special Purpose Revenue Bonds (State Supported Biomedical Science Research Facilities Funding Program) Series 2010A (the "Series 2010A Bonds") and 25% from the proceeds of the University's General Obligation Taxable Bonds (University Supported Biomedical Science Research Facilities Funding Program) Series 2010B (the "Series 2010B Bonds"). In addition, the University received two grants from the National Institute of Health totaling $8,300,000 for research equipment. The total of all funding sources applied to Program Project 1, including additional University funds, currently approximates $61,000,000. The architect was RSP Architects of Minneapolis, Minnesota and the construction manager was M.A. Mortenson Construction ("Mortenson") of Golden Valley, Minnesota.

Program Projects 2 and 3: CCRB Commons & Infrastructure

The CCRB is the centerpiece of the entire Biomedical Discovery District. Construction began in March 2011 and completed in June 2013. The CCRB is a new research laboratory facility comprising approximately 285,000 gross square feet. Originally conceived as two separate facilities, the combined structure was designed to maximize financial and physical resources by enhancing the potential for collaboration across departmental lines in research activities and allowing scientists to more quickly develop basic science breakthroughs for clinical use. In addition, the building is physically connected to the other facilities in the District and provides common public space for district-wide meetings, events and food service.

CCRB facilities have been specifically designed to support targeted research to find cures and treatments for the devastating health conditions of cancer and heart disease. Cancer researchers plan to study chemical biology focusing on chemical carcinogens as a cause of cancer, and to build new models to find therapeutic strategies to fight cancer. Cardiac researchers plan to study heart regeneration and development, muscular dystrophy, congenital heart medicine and genomics. The CCRB contains biological and chemical wet laboratories, faculty and staff offices, shared instrumentation and laboratory support, and common space supporting research programs in cancer and cardiovascular disease.

The schematic design anticipated a total facility cost, including infrastructure, of approximately $200,300,000. The actual facility cost, including infrastructure, was approximately $180,200,000. Funding was provided 75% by the State and 25% by the University. The Series 2010A Bonds and the Series 2010B Bonds funded approximately $100,000,000 of the total amount; the remainder was funded by the second issuance of bonds under the Program, the Series 2011B Bonds and the Series 2011C Bonds.

The architects for this facility were Architectural Alliance of Minneapolis, Minnesota, and Zimmer Gunsul Frasca Architects (ZGF) of Seattle, Washington. The construction manager was Mortenson.

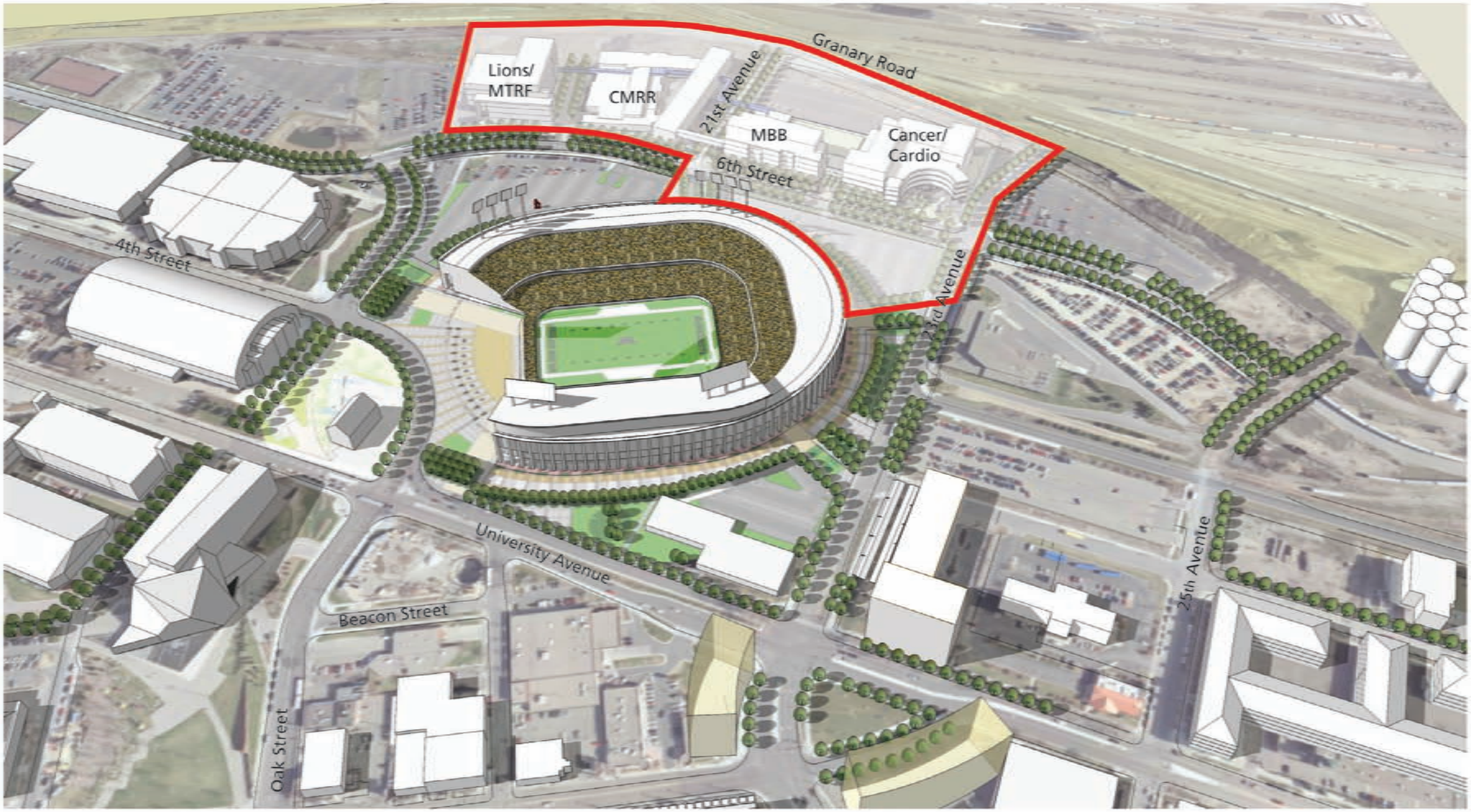
Program Project 4: Microbiology Research Facility

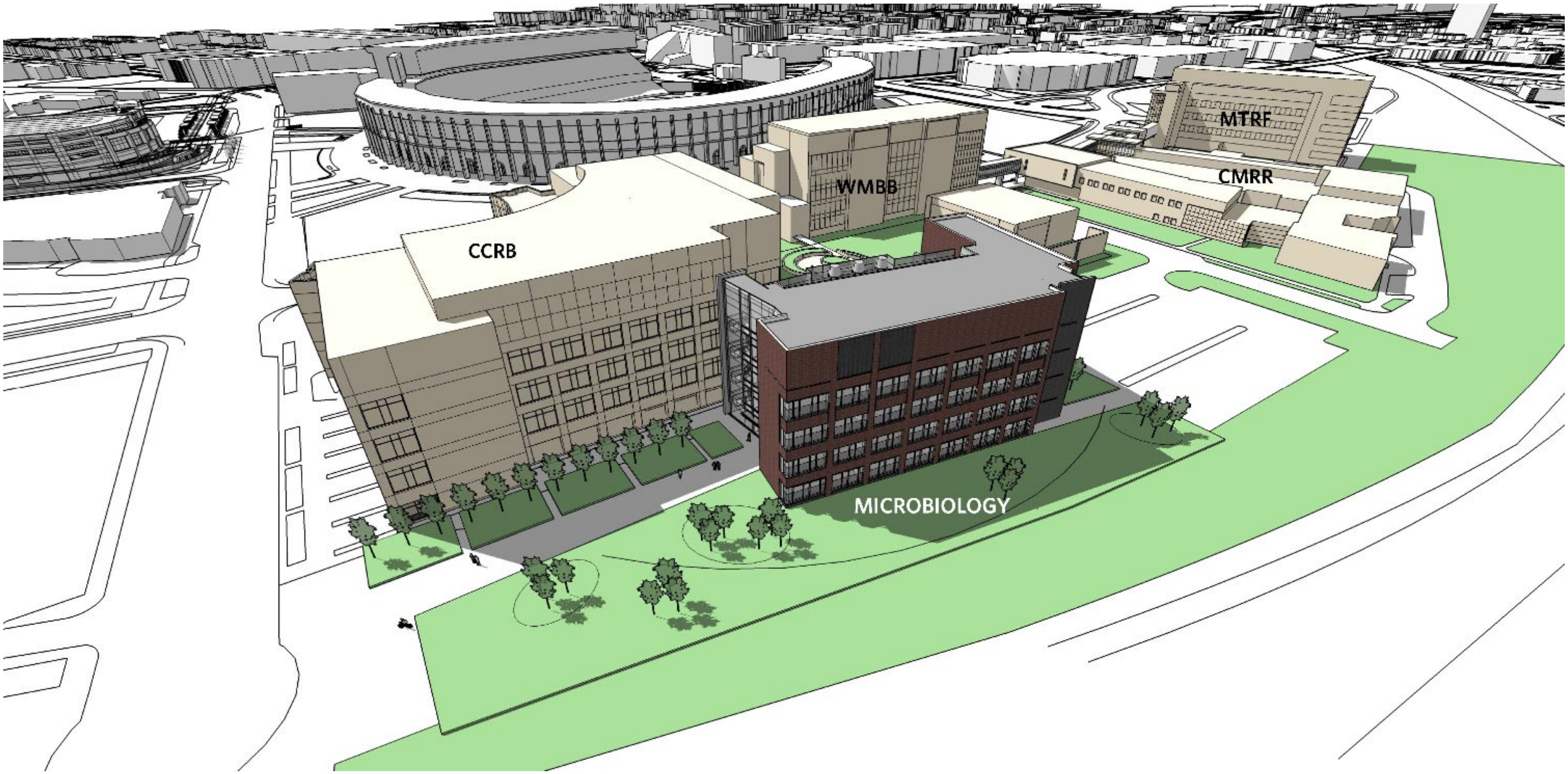
The 80,000 gross square foot Microbiology Research Facility ("MRF"), the fourth and final building funded under the Biomedical Facility Program, will be located north of the CCRB and will house the laboratories, offices and collaborative work spaces for the faculty, staff, and graduate students of the Department of Microbiology. The building will house research labs and lab support, a research commons, and office and collaborative/office support. Special environmental controls and clean and standby power will be provided to select rooms based on programmatic need. This project will also provide district circulation and utility infrastructure.

The schematic design currently anticipates a total facility cost of approximately $61,000,000. Consistent with Program requirements, funding will be provided 75% by the State and 25% by the University. Approximately $50,500,000 of the total will be funded by the third issuance of bonds under the Program, the Series 2013C Bonds and the Series 2013D Bonds; the remainder will be funded by proceeds remaining from the first two issuances of bonds under the Program, the Series 2010A Bonds, the Series 2010B Bonds, the Series 2011B Bonds, and the Series 2011C Bonds.

Construction is anticipated to start November 2013 with completion in July 2015. The architect for this facility is BWBR Architects of St. Paul, Minnesota. The construction manager is Mortenson.

Biomedical Discovery District

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CMRR
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