



UNIVERSITY OF MINNESOTA  
**Driven to Discover<sup>SM</sup>**

2019 Annual Financial Report

## **Consolidated Financial Statements**

as of and for the Years Ended June 30, 2019 and 2018,  
Independent Auditors' Report, and Management's Discussion and Analysis

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## INDEPENDENT AUDITORS' REPORT

The Board of Regents  
University of Minnesota  
Minneapolis, Minnesota

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the University of Minnesota (the "University") as of June 30, 2019 and 2018, the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic consolidated financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Consolidated Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinion***

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2019 and 2018, 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, 2019 and 2018, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Deloitte & Touche LLP*

October 31, 2019



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

The Board of Regents  
University of Minnesota  
Minneapolis, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated statement of net position of the University of Minnesota (the "University") as of June 30, 2019, the related consolidated statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, which collectively comprise the University's basic consolidated financial statements, and have issued our report thereon dated October 31, 2019. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component units, as described in our report on the University's consolidated financial statements. The financial statements of the discretely presented component units were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the discretely presented component units.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Deloitte & Touche LLP*

October 31, 2019

## **Management's Discussion and Analysis**

(Unaudited)

This discussion and analysis of the University of Minnesota's (the University) consolidated financial statements provides an overview of the consolidated financial position and activities of the University for the years ended June 30, 2019, 2018, and 2017. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

### **Introduction**

The University 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.

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

The University is one of only five universities in the nation with an engineering school, a medical school, a law school, a veterinary medicine school and an agricultural school all on one campus.

The University is among the top nine public research institutions nationally. The University is the state's major research institution with research expenditures of approximately \$720.6 million, \$768.1 million, and \$763.4 million in fiscal years 2019, 2018, and 2017, respectively, for research under various programs funded by governmental and private sources. Various governmental and private sources also funded research activities with expenditures included in both Instruction and Public Service.

The University's enrollment for all five campuses is approximately 67,000 students, with the Twin Cities campus having the largest student enrollment of approximately 51,000 students.

The Duluth campus is a comprehensive, highly-ranked regional research and liberal arts university that offers instruction through the doctoral degree and has a global reputation for research in natural and freshwater resources. The Duluth campus consistently ranks among the top Midwestern regional universities with student enrollment of approximately 11,000 students.

The Crookston campus is known for its focus on experiential learning and is one of the nation's pioneers in online and distance education with a student enrollment of approximately 2,800 students.

The Morris campus is ranked as one of the top public liberal arts colleges in the nation and is a leader in environmental sustainability and diversity. The Morris campus focuses on undergraduate programs with a student enrollment of approximately 1,600 students.

The Rochester campus is focused on meeting the educational needs of students in the southeastern Minnesota area at the upper division undergraduate and post-baccalaureate levels and conducts research in the areas of health sciences and biotechnology. The Rochester campus has a student enrollment of approximately 500 students.

### **Mission**

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

- provides instruction for approximately 67,000 students;
- graduates approximately 16,000 students, 39 percent with graduate or first professional degrees on the Twin Cities campus;
- provides over 300 student exchange programs, ranking third nationally with learning abroad programs;
- conducts research sponsored by the National Institutes of Health, the National Science Foundation, other federal, state, and governmental agencies, and numerous private companies and foundations;
- reaches out to more than one million Minnesotans through various outreach and public service activities.

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

- The University generates \$8.6 billion in combined economic impact annually for the State of Minnesota;
- The University is the fifth largest employer in Minnesota and supports 77,700 jobs throughout the State;
- For every dollar invested by the State into the University, \$13.83 is generated in the State's economy;
- University faculty, staff and students generate more than \$131.4 million annually in community impact through donations and volunteer time.

## **Consolidated Financial Statements**

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

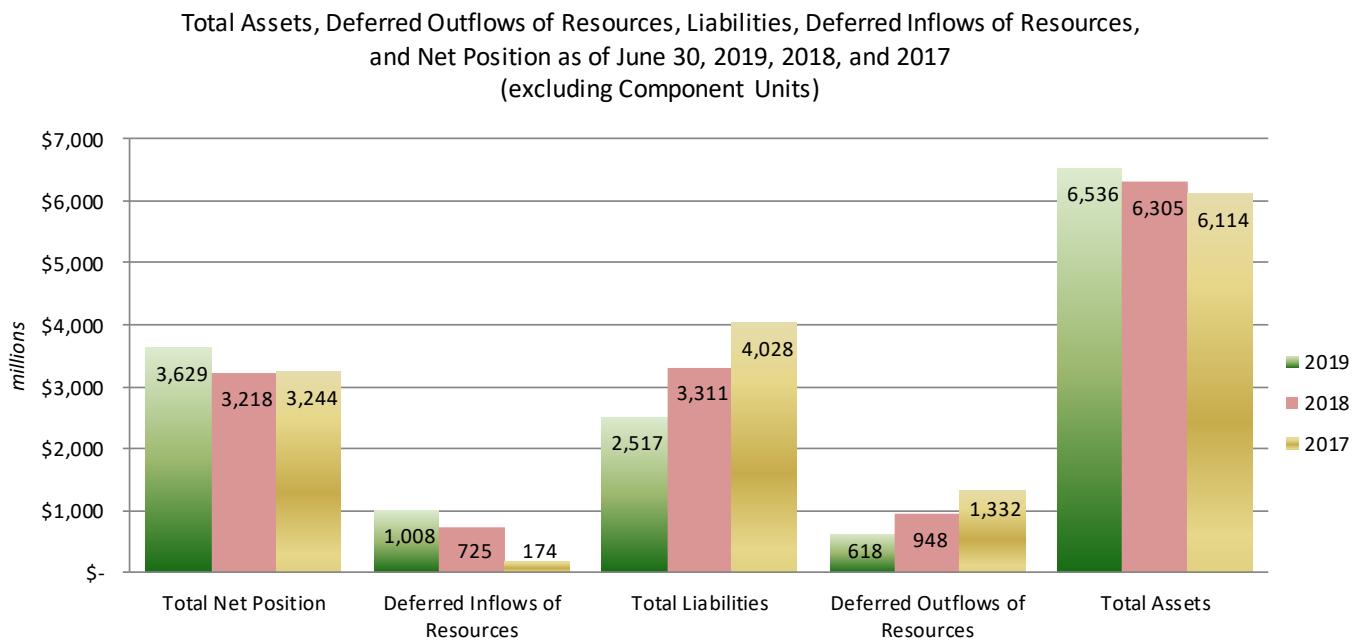
In fiscal year 2018, the University implemented GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 establishes new accounting and financial reporting requirements where University employees are provided with Other Postemployment Benefits (OPEB) and replaces the requirements of GASB Statement No 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires the full OPEB liability be recognized immediately whereas GASB 45 allowed for gradual amortization. The University reported an OPEB liability of \$40.3 million, \$34.9 million and \$32.5 million in fiscal years 2019, 2018, and 2017, respectively.

## **Financial Highlights**

The University's financial position remains strong with assets of \$6.5 billion, an increase of \$0.2 billion from fiscal year 2018. Liabilities decreased to \$2.5 billion compared to \$3.3 billion for fiscal year 2018. The University's net position, the difference between total assets, deferred outflows of resources (items previously reported as assets), total liabilities, and deferred inflows of resources (items previously reported as liabilities), increased to \$3.6 billion as of June 30, 2019 compared to \$3.2 billion as of June 30, 2018.

On March 29, 2019, the University of Minnesota's wholly owned company, 2515 University Avenue SE, LLC purchased the University Village property from Wedum University Village, LLC for \$43.0 million. The purchase was funded through two notes issued by the University to 2515 University Avenue SE, LLC in the amount of \$43.5 million: Temporary Investment Pool (TIP) Real Estate Term Note in the amount of \$34.8 million and Consolidated Endowment Fund (CEF) Subordinated Term Note in the amount of \$8.7 million. The note amounts of \$43.5 million consist of \$43.0 million for land, building and equipment and \$0.5 million retained by the University for expenses incurred by the University for the benefit of 2515 University Avenue SE, LLC. Refer to Note 1 for additional information.

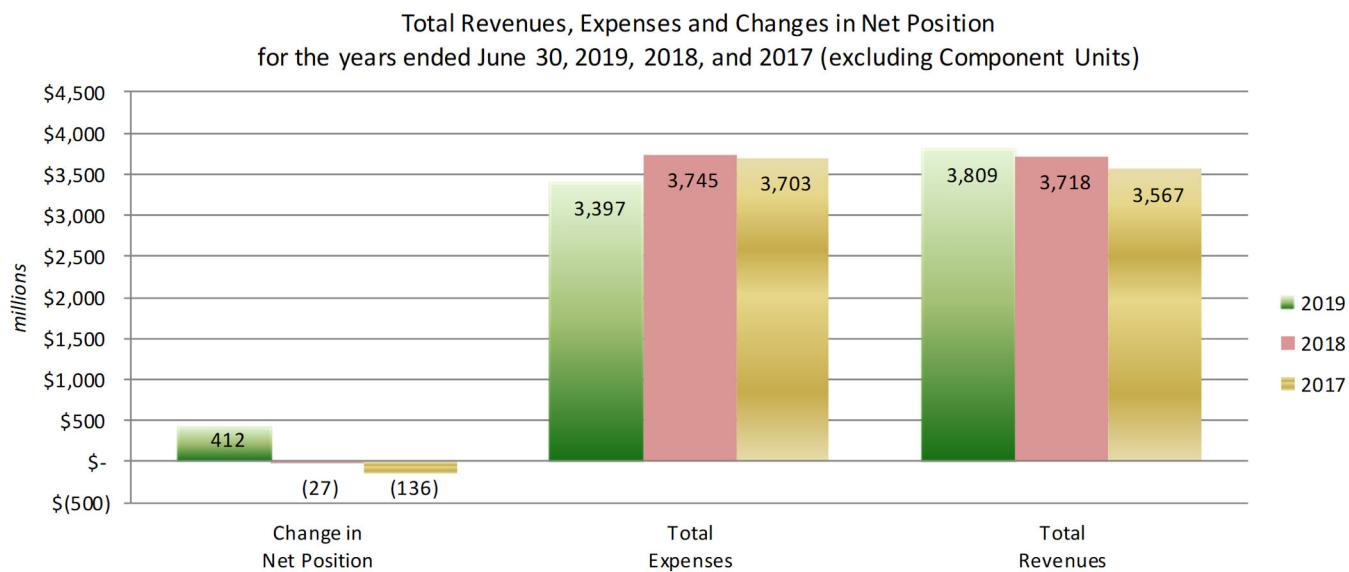
The following chart summarizes total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2019, 2018 and 2017, respectively:



The change in net position represents the financial results during the fiscal year and is the difference between total revenue and total expense. The University's net position increased \$411.8 million in fiscal year 2019 compared to a decrease of \$26.8 million in fiscal year 2018. The significant factors that contributed to the increase in total net position for fiscal year 2019 include the recording of the net pension liability and increases in investment related activity, partially offset by increases in long-term debt.

The net pension liability for fiscal year 2019 was significantly impacted by both changes in actuarial assumptions and plan changes. The change to the actuarial assumptions increased the single discount rate to 7.50 percent in fiscal year 2019, from 5.42 percent in fiscal year 2018. Additionally, changes to the plan provisions included increased member contributions. These changes resulted in a decrease in the net pension liability recorded by the University, thereby increasing the University's net position.

The following chart summarizes total revenues, expenses and the changes in net position for the years ended June 30, 2019, 2018 and 2017, respectively:



The University experienced an increase in total revenue of \$91.1 million or 2.5 percent due to increases in almost all operating revenue categories and investment income, partially offset by decreases in both State and Federal appropriations. Total expenses decreased \$347.4 million or 9.3 percent compared to an increase in fiscal year 2018 of \$41.9 million or 1.1 percent.

The University continues to focus on instruction, research and public service while continuing to emphasize controlling operating expenses. The operating expense fluctuations as a result of GASB 68 and 71, do not impact the overall operations of the University.

### **Consolidated Statements of Net Position**

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

A comparison of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2019, 2018 and 2017 is summarized in the table below:

| Condensed Statements of Net Position<br>(in thousands) |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | 2019                | 2018                | 2017                |
| <b>Assets</b>  |                     |                     |                     |
| Current assets   | \$ 1,099,839        | \$ 1,103,480        | \$ 887,438          |
| Noncurrent assets, excluding capital assets            | 2,201,476           | 2,015,711           | 2,085,246           |
| Capital assets, net                                    | 3,234,494           | 3,185,317           | 3,141,059           |
| <b>Total assets</b>                                    | <b>6,535,809</b>    | <b>6,304,508</b>    | <b>6,113,743</b>    |
| <b>Deferred outflows of resources</b>                  | <b>618,869</b>      | <b>948,273</b>      | <b>1,332,540</b>    |
| <b>Liabilities</b>                                     |                     |                     |                     |
| Current liabilities, excluding long-term debt          | 556,282             | 518,349             | 511,257             |
| Noncurrent liabilities, excluding long-term debt       | 347,440             | 1,250,444           | 2,051,461           |
| Long-term debt   | 1,613,482           | 1,541,789           | 1,464,976           |
| <b>Total liabilities</b>                               | <b>2,517,204</b>    | <b>3,310,582</b>    | <b>4,027,694</b>    |
| <b>Deferred inflows of resources</b>                   | <b>1,008,147</b>    | <b>724,632</b>      | <b>174,265</b>      |
| <b>Net position</b>                                    |                     |                     |                     |
| Unrestricted   | 602,509             | 345,558             | 394,159             |
| Restricted—expendable                                  | 1,038,042           | 901,976             | 817,397             |
| Restricted—nonexpendable                               | 314,264             | 309,407             | 313,885             |
| Net investment in capital assets                       | 1,674,512           | 1,660,626           | 1,718,883           |
| <b>Total net position</b>                              | <b>\$ 3,629,327</b> | <b>\$ 3,217,567</b> | <b>\$ 3,244,324</b> |

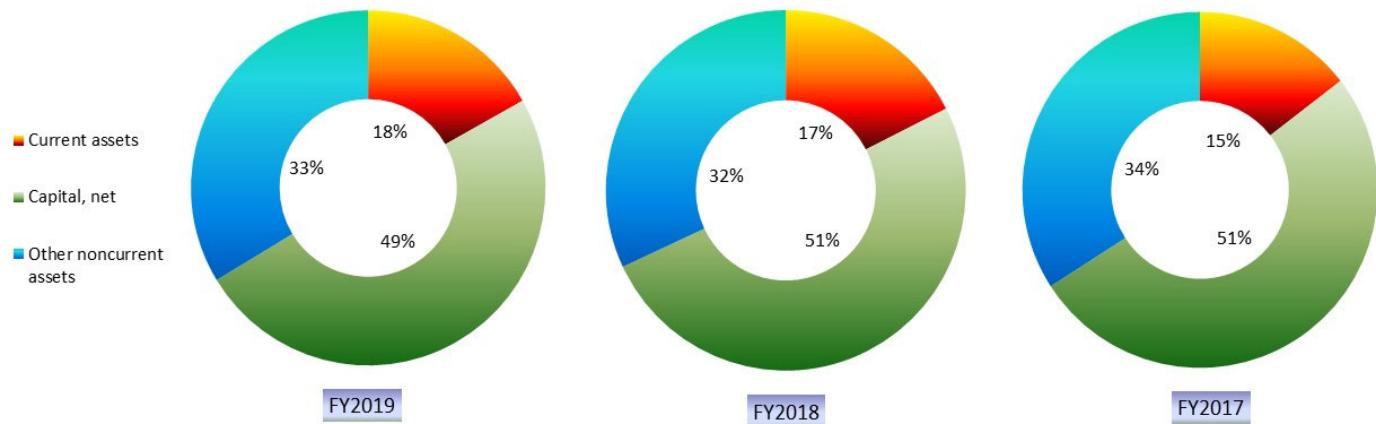
## Assets

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

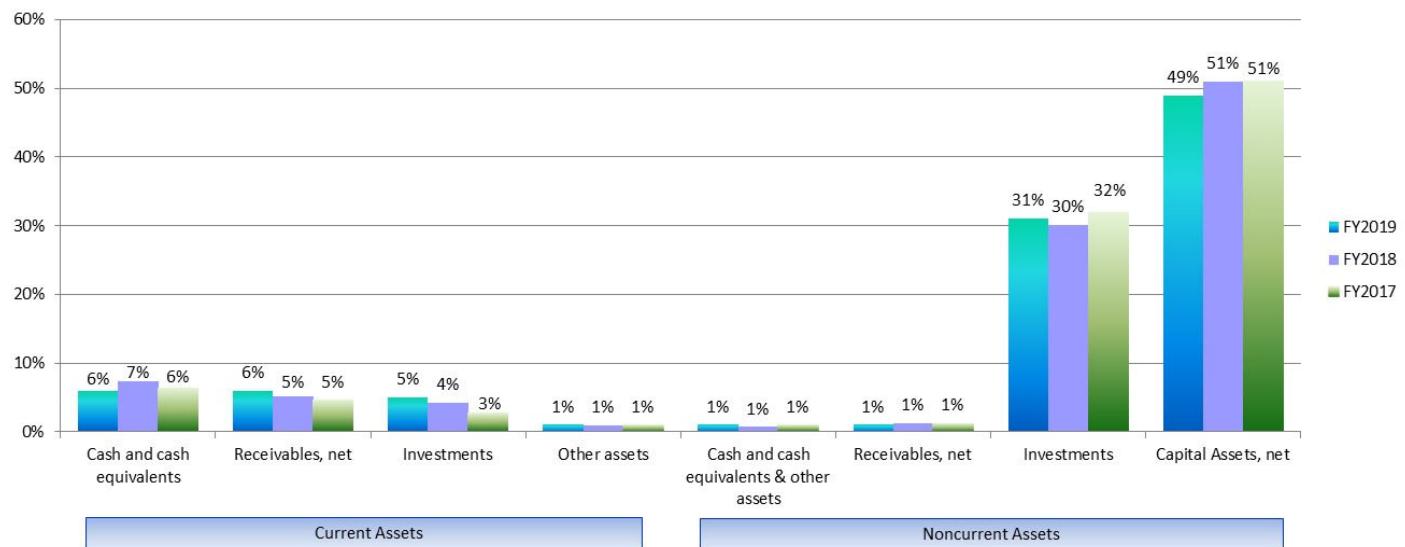
Noncurrent assets consist primarily of investments, capital assets net of accumulated depreciation, and student loan receivables.

The following charts illustrate the composition of total assets:

The University's Total Assets as of June 30, 2019, 2018 and 2017



The University's Current and Noncurrent Assets as of June 30, 2019, 2018 and 2017



**The University's Current and Noncurrent Assets as of June 30, 2019, 2018 and 2017**  
*(in thousands)*

|  | 2019                | 2018                | 2017                | Increase (Decrease) |                   |                   |               |
|--|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|---------------|
|  |                     |                     |                     | From 2018 to 2019   | From 2017 to 2018 | Amount            | Percent       |
| <b>Current assets</b>                    |                     |                     |                     |                     |                   |                   |               |
| Cash and cash equivalents                | \$ 405,247          | \$ 463,460          | \$ 387,772          | \$ (58,213)         | (12.6%)           | \$ 75,688         | 19.5%         |
| Receivables, net                         | 369,025             | 319,820             | 280,307             | 49,205              | 15.4%             | 39,513            | 14.1%         |
| Investments                              | 271,618             | 263,676             | 163,201             | 7,942               | 3.0%              | 100,475           | 61.6%         |
| Other assets                             | 53,949              | 56,524              | 56,158              | (2,575)             | (4.6%)            | 366               | 0.7%          |
| <b>Total current assets</b>              | <b>1,099,839</b>    | <b>1,103,480</b>    | <b>887,438</b>      | <b>(3,641)</b>      | <b>(0.3%)</b>     | <b>216,042</b>    | <b>24.3%</b>  |
| <b>Noncurrent assets</b>                 |                     |                     |                     |                     |                   |                   |               |
| Capital Assets, net                      | 3,234,494           | 3,185,317           | 3,141,059           | 49,177              | 1.5%              | 44,258            | 1.4%          |
| <b>Other noncurrent assets</b>           |                     |                     |                     |                     |                   |                   |               |
| Cash and cash equivalents & other assets | 77,688              | 43,193              | 82,135              | 34,495              | 79.9%             | (38,942)          | (47.4%)       |
| Receivables, net                         | 70,606              | 74,621              | 74,522              | (4,015)             | (5.4%)            | 99                | 0.1%          |
| Investments                              | 2,053,182           | 1,897,897           | 1,928,589           | 155,285             | 8.2%              | (30,692)          | (1.6%)        |
| <b>Total other noncurrent assets</b>     | <b>2,201,476</b>    | <b>2,015,711</b>    | <b>2,085,246</b>    | <b>185,765</b>      | <b>9.2%</b>       | <b>(69,535)</b>   | <b>(3.3%)</b> |
| <b>Total assets</b>                      | <b>\$ 6,535,809</b> | <b>\$ 6,304,508</b> | <b>\$ 6,113,743</b> | <b>\$ 231,301</b>   | <b>3.7%</b>       | <b>\$ 190,765</b> | <b>3.1%</b>   |

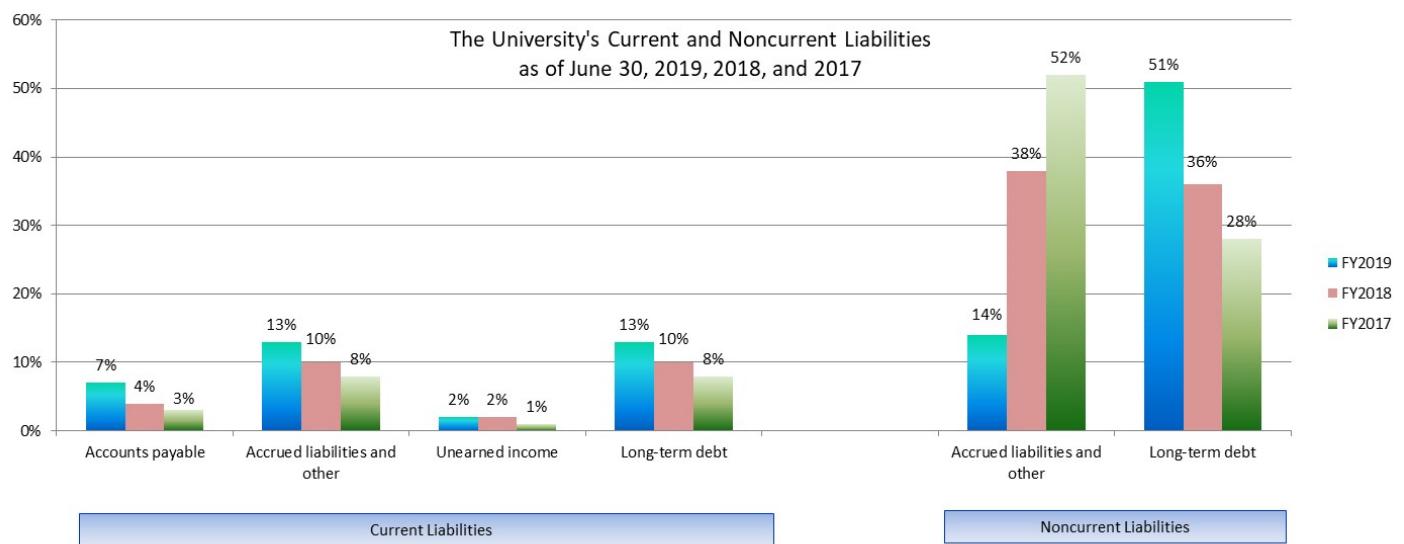
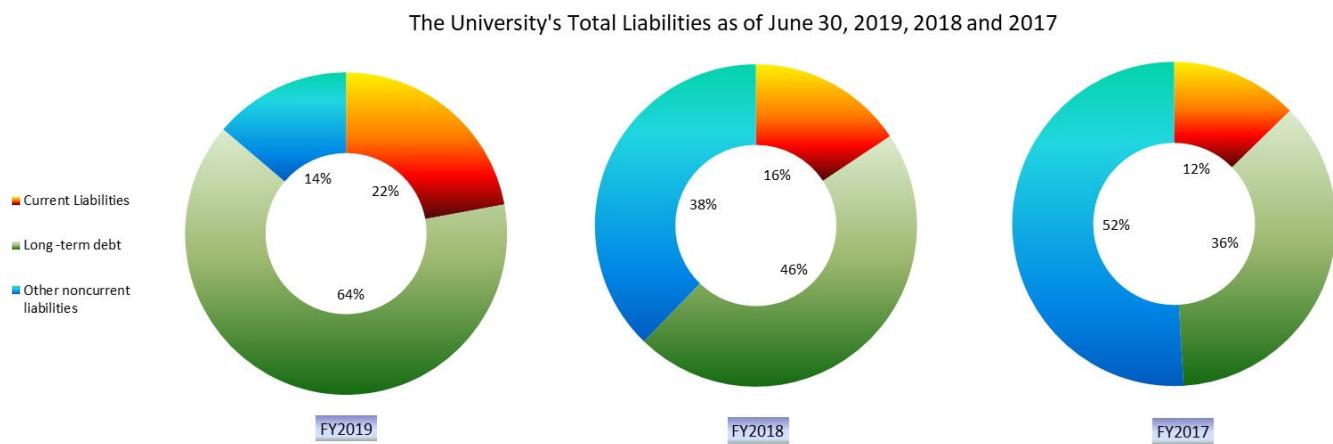
As of June 30, 2019, total assets increased \$231.3 million primarily due to increases in investments, receivables, and capital assets, net partially offset by decreases in cash and cash equivalents. Investments increased \$163.2 million primarily due to favorable market conditions, partially offset by a decrease to the Temporary Investment Pool (TIP) due to funding capital expenditures. TIP is readily accessible cash and cash equivalents and investments that can be liquidated for cash needs of the University. Cash and cash equivalents and other assets decreased \$26.3 million due to normal University operations. Noncurrent cash and cash equivalents consist of unspent bond proceeds of \$62.6 million and \$25.4 million in fiscal years 2019 and 2018, respectively. Capital assets, net of accumulated depreciation, increased \$49.2 million due to the purchase of University Village property in addition to increased spending on construction projects, specifically the Pioneer Hall renovation, the Health Sciences Education Center, and the Plant Growth Research Facility. Refer to Note 4 for additional information related to capital assets.

## **Liabilities**

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

Noncurrent liabilities consist primarily of accrued liabilities, notes payable, leases and bonds payable (long-term debt).

The following charts illustrate the composition of total liabilities:



**The University's Current and Noncurrent Liabilities as of June 30, 2019, 2018 and 2017**  
*(in thousands)*

|                                     | 2019                | 2018                | 2017                | Increase (Decrease)         |                              |                             |                              |
|-------------------------------------|---------------------|---------------------|---------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|
|                                     |                     |                     |                     | From 2018 to 2019<br>Amount | From 2018 to 2019<br>Percent | From 2017 to 2018<br>Amount | From 2017 to 2018<br>Percent |
| <b>Current liabilities</b>          |                     |                     |                     |                             |                              |                             |                              |
| Accounts payable                    | \$ 163,956          | \$ 137,764          | \$ 139,589          | \$ 26,192                   | 19.0%                        | \$ (1,825)                  | (1.3%)                       |
| Accrued liabilities and other       | 327,918             | 315,696             | 309,116             | 12,222                      | 3.9%                         | 6,580                       | 2.1%                         |
| Unearned income                     | 64,408              | 64,889              | 62,552              | (481)                       | (0.7%)                       | 2,337                       | 3.7%                         |
| Long-term debt                      | 320,119             | 346,794             | 333,509             | (26,675)                    | (7.7%)                       | 13,285                      | 4.0%                         |
| <b>Total current liabilities</b>    | <b>876,401</b>      | <b>865,143</b>      | <b>844,766</b>      | <b>11,258</b>               | <b>1.3%</b>                  | <b>20,377</b>               | <b>2.4%</b>                  |
| <b>Noncurrent liabilities</b>       |                     |                     |                     |                             |                              |                             |                              |
| Accrued liabilities and other       | 347,396             | 1,250,400           | 2,051,375           | (903,004)                   | (72.2%)                      | (800,975)                   | (39.0%)                      |
| Unearned income *                   | 44                  | 44                  | 86                  |                             | 0.0%                         | (42)                        | (48.8%)                      |
| Long-term debt                      | 1,293,363           | 1,194,995           | 1,131,467           | 98,368                      | 8.2%                         | 63,528                      | 5.6%                         |
| <b>Total noncurrent liabilities</b> | <b>1,640,803</b>    | <b>2,445,439</b>    | <b>3,182,928</b>    | <b>(804,636)</b>            | <b>(32.9%)</b>               | <b>(737,489)</b>            | <b>(23.2%)</b>               |
| <b>Total Liabilities</b>            | <b>\$ 2,517,204</b> | <b>\$ 3,310,582</b> | <b>\$ 4,027,694</b> | <b>\$ (793,378)</b>         | <b>(24.0%)</b>               | <b>\$ (717,112)</b>         | <b>(17.8%)</b>               |

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

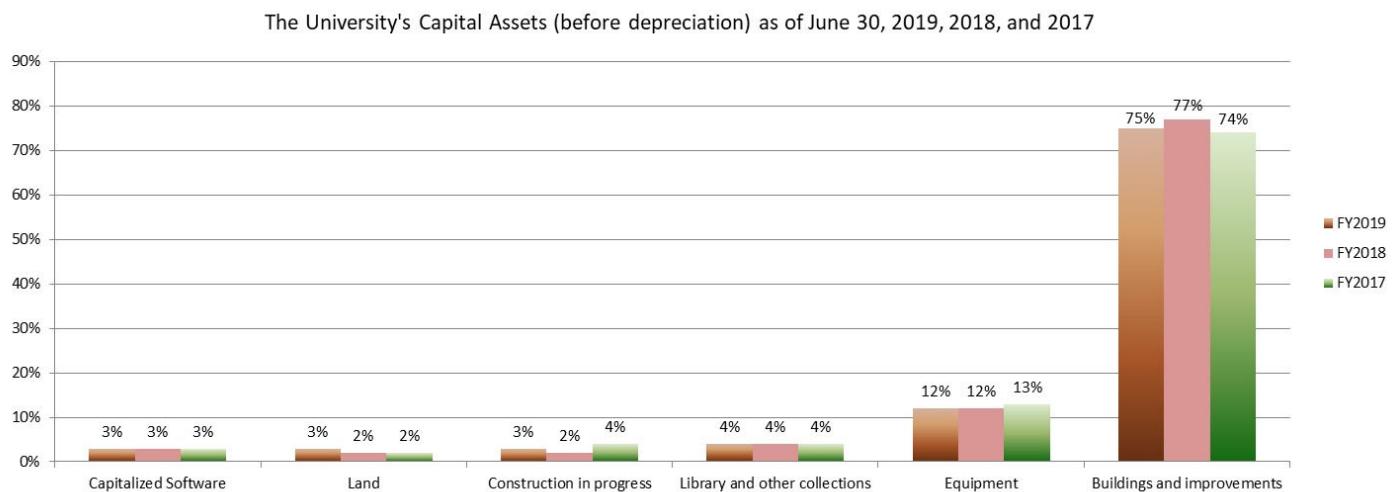
As of June 30, 2019, total liabilities decreased \$793.4 million primarily due to a decrease in accrued liabilities of \$890.9 million as a result of recording adjustments to the net pension liability, partially offset by increases in long-term debt. The decrease related to the net pension liability adjustment is a result of a change in the actuarial assumptions. The University's long-term debt represents 64 percent of total liabilities or \$1,613.5 million as of June 30, 2019 compared to 47 percent or \$1,541.8 million as of June 30, 2018.

With the implementation of GASB 75 in fiscal year 2018, the University recorded the University's full liability related to Other Postemployment Benefits (OPEB). The University reported an OPEB liability of \$40.3 million, \$34.9 million and \$32.5 million in fiscal years 2019, 2018 and 2017, respectively. As of June 30, 2019, the cumulative OPEB liability of \$40.3 million was recorded as a current liability of \$4.2 million and a noncurrent liability of \$36.1 million.

Long-term debt increased \$71.7 million or 4.7 percent. The University issued General Obligation (GO) Bonds Series 2019A, GO Refunding Bonds Series 2019B, GO Taxable Refunding Bonds Series 2019C, and Commercial Paper Notes Series H and I, in the amount of \$104.2 million, \$51.2 million, \$20.0 million, \$57.6 million and \$16.0 million, respectively in fiscal year 2019. Additions from the issuance were offset by normal amortization of the bonds, premiums and discounts. Refer to Note 5 for additional information related to long-term debt.

## Capital and Debt Activities

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



The University's Capital Asset Categories (before depreciation) for the years ended June 30, 2019, 2018 and 2017  
(in thousands)

|                                     | 2019                | 2018                | 2017                | Increase (Decrease) |             |                   |             |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------|-------------------|-------------|
|                                     |                     |                     |                     | From 2018 to 2019   |             | From 2017 to 2018 |             |
|                                     |                     |                     |                     | Amount              | Percent     | Amount            | Percent     |
| <b>Capital assets (gross)</b>       |                     |                     |                     |                     |             |                   |             |
| Buildings and improvements          | \$ 5,152,661        | \$ 5,043,935        | \$ 4,693,313        | \$ 108,726          | 2.2%        | \$ 350,622        | 7.5%        |
| Equipment                           | 805,476             | 789,077             | 794,146             | 16,399              | 2.1%        | (5,069)           | (0.6%)      |
| Library and other collections       | 262,636             | 254,804             | 248,229             | 7,832               | 3.1%        | 6,575             | 2.6%        |
| Construction in progress            | 174,429             | 105,616             | 258,089             | 68,813              | 65.2%       | (152,473)         | (59.1%)     |
| Land                                | 187,316             | 162,735             | 154,416             | 24,581              | 15.1%       | 8,319             | 5.4%        |
| Software and other intangibles      | 191,484             | 186,543             | 178,910             | 4,941               | 2.6%        | 7,633             | 4.3%        |
| <b>Total capital assets (gross)</b> | <b>\$ 6,774,002</b> | <b>\$ 6,542,710</b> | <b>\$ 6,327,103</b> | <b>\$ 231,292</b>   | <b>3.5%</b> | <b>\$ 215,607</b> | <b>3.4%</b> |

Capital additions totaled \$269.3 million, \$272.5 million, and \$331.1 million in fiscal years 2019, 2018 and 2017, respectively. Fiscal year 2019 spending included the completion of the Duluth Chemical Sciences and Advanced Material Building in addition to spending on existing projects, such as the Health Sciences Education Center, the Pioneer Hall renovation and the Plant Growth Research facility. Project spending continuing in fiscal year 2020 is projected to be \$47.3 million, \$16.2 million, and \$1.6 million for the Health Sciences Education Center, Pioneer Hall renovation, and the Plant Growth Research facility, respectively. See Note 4 for more detailed information about capital assets.

Fiscal year 2019 debt activity included the issuance of General Obligation Bonds, Series 2019A, General Obligation Refunding Bonds, Series 2019B, General Obligation Taxable Refunding Bonds, Series 2019C and Commercial Paper Notes, Series H and Series I.

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

Capital leases of \$22.4 million, \$2.7 million and \$3.1 million were issued in fiscal year 2019, 2018 and 2017, respectively. Refer to Note 5 for additional information.

## Deferred Outflows and Inflows of Resources

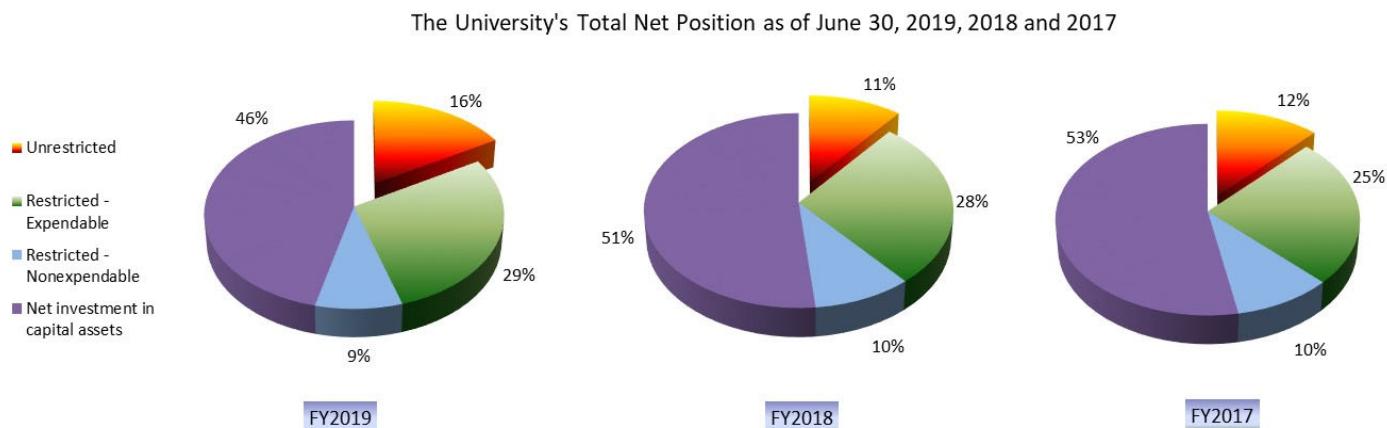
Deferred outflows of resources are items previously reported as assets that result in the outflow of net position in the current reporting period for activities applicable to a future reporting period. Likewise, deferred inflows of resources are items previously reported as liabilities that result in the inflow of net position in the current reporting period for activities applicable to a future reporting period. As of June 30, 2019, the deferred outflows of resources decreased \$329.4 million and deferred inflows of resources increased \$283.5 million, primarily due to the balances and related activity of the University's Net Pension Liability related to the State retirement plans.

## Net Position

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

- **Unrestricted net position**—Includes assets that are not subject to limitations or stipulations imposed by external entities and that have not been set aside for capital or endowment purposes. These assets are available for any lawful purpose of the University and include resources that may be designated for specific purposes as determined by management or the Board of Regents.
- **Restricted net position, which is divided into two categories—expendable and nonexpendable**—Expendable assets are available for expenditure by the University, but only in accordance with restrictions placed on their use by donors and other external entities. Nonexpendable assets are also externally restricted, but are required to be retained in perpetuity, including the University's true endowments and institutional contributions to refundable loan programs.
- **Net investment in capital assets**—Includes property, plant, and equipment, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to these capital assets.

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



**The University's Total Net Position as of June 30, 2019, 2018 and 2017**  
*(in thousands)*

|                                  | 2019                | 2018                | 2017                | Increase (Decrease) |              |                    |               |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|--------------|--------------------|---------------|
|                                  |                     |                     |                     | From 2018 to 2019   |              | From 2017 to 2018  |               |
|                                  |                     |                     |                     | Amount              | Percent      | Amount             | Percent       |
| Unrestricted                     | \$ 602,509          | \$ 345,558          | \$ 394,159          | \$ 256,951          | 74.4%        | \$ (48,601)        | (12.3%)       |
| Restricted:                      |                     |                     |                     |                     |              |                    |               |
| Expendable                       | 1,038,042           | 901,976             | 817,397             | 136,066             | 15.1%        | 84,579             | 10.3%         |
| Nonexpendable                    | 314,264             | 309,407             | 313,885             | 4,857               | 1.6%         | (4,478)            | (1.4%)        |
| Net investment in capital assets | 1,674,512           | 1,660,626           | 1,718,883           | 13,886              | 0.8%         | (58,257)           | (3.4%)        |
| <b>Total net position</b>        | <b>\$ 3,629,327</b> | <b>\$ 3,217,567</b> | <b>\$ 3,244,324</b> | <b>\$ 411,760</b>   | <b>12.8%</b> | <b>\$ (26,757)</b> | <b>(0.8%)</b> |

The University's unrestricted net position increased \$257.0 million in fiscal year 2019 primarily due to a decrease in accrued liabilities, partially offset by an increase in deferred inflows of resources, specifically related to the net pension liability. The University's restricted expendable net position increased \$136.1 million in fiscal year 2019 due primarily to changes in market values related to endowments and the recording of adjustments to the University's net pension liability. The University's net investment in capital assets increased \$13.9 million primarily due to capital assets and unspent bond proceeds, partially offset by an increase in long-term debt.

The University records a net pension liability in accordance with GASB 68 and 71 and represents accounting and reporting standards only. The state of Minnesota has no law that requires the University to assume the liability, as a participant of the pension plans, in the event the retirement plans were discontinued. The required recording of the deferred outflows of resources, deferred inflows of resources and net pension liability are recorded on the University's consolidated financial statements, but have no impact to the funding provisions, nature and amount of benefits, or actual cash flows of the University. For additional information refer to Note 6 and GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*.

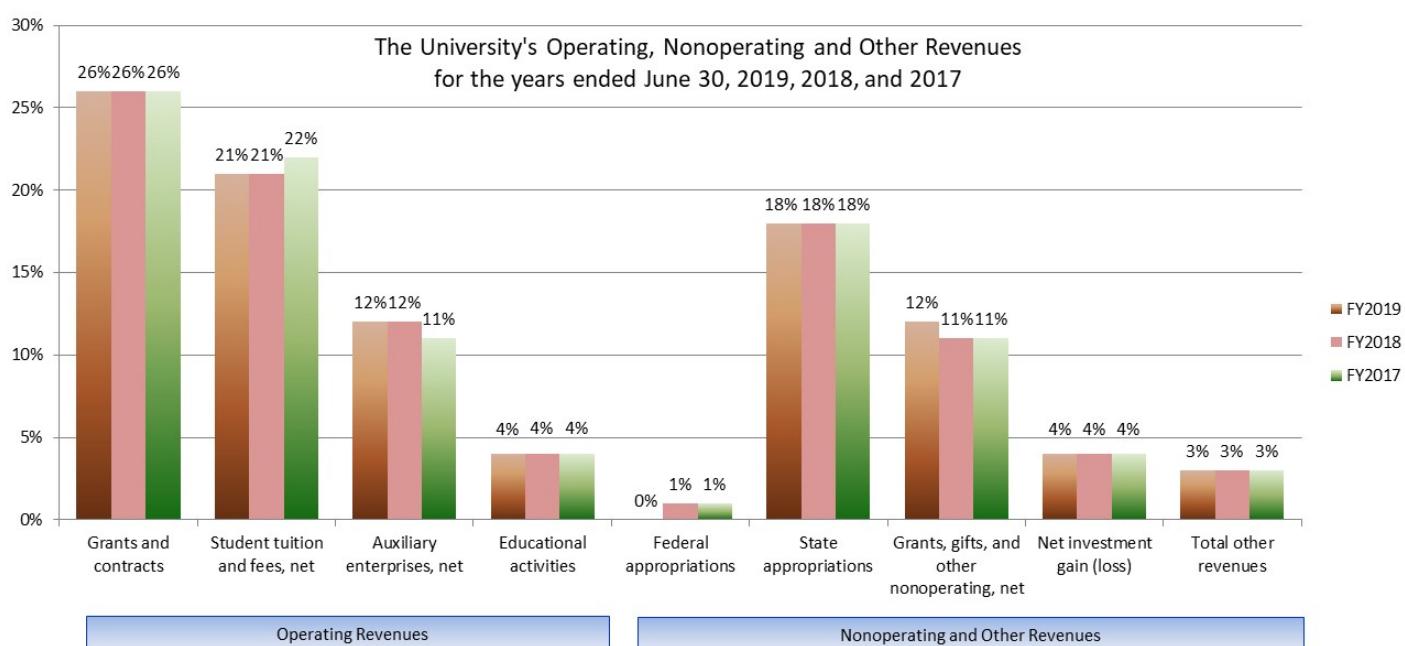
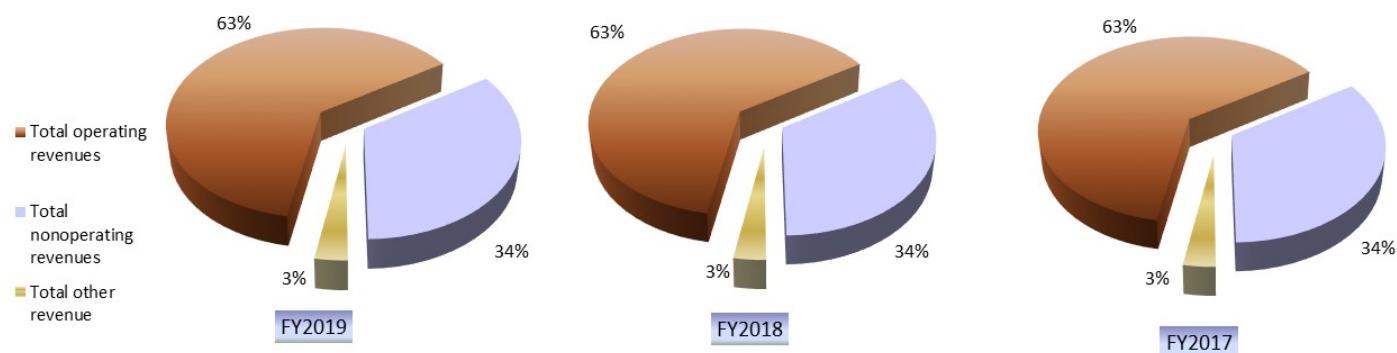
To illustrate the impact of GASB 68 and 71, the following chart summarizes the University's total assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position with and without the impact of GASB 68 and 71. The following chart is for illustration purposes only.

| Condensed Statements of Net Position with GASB 68 and 71<br>(in thousands) |                     |                     |                     | Condensed Statements of Net Position without GASB 68 and 71<br>(in thousands) |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---|---------------------|---------------------|---------------------|
|  | 2019                | 2018                | 2017                |   | 2019                | 2018                | 2017                |
| Total assets   | 6,535,809           | 6,304,508           | 6,113,743           | Total assets  | 6,535,809           | 6,304,508           | 6,113,743           |
| Deferred outflows of resources   | 618,869             | 948,273             | 1,332,540           | Deferred outflows of resources  | 5,950               | 5,237               | 3,744               |
| Total liabilities  | 2,517,204           | 3,310,582           | 4,027,694           | Total liabilities   | 2,307,811           | 2,196,917           | 2,118,824           |
| Deferred inflows of resources  | 1,008,147           | 724,632             | 174,265             | Deferred inflows of resources   | 6,608               | 6,253               | 1,992               |
| <b>Net position</b>  |                     |                     |                     | <b>Net position</b>   |                     |                     |                     |
| Unrestricted   | 602,509             | 345,558             | 394,159             | Unrestricted  | 1,068,788           | 1,032,588           | 976,704             |
| Restricted—expendable  | 1,038,042           | 901,976             | 817,397             | Restricted—expendable   | 1,169,776           | 1,103,954           | 987,199             |
| Restricted—nonexpendable   | 314,264             | 309,407             | 313,885             | Restricted—nonexpendable  | 314,264             | 309,407             | 313,885             |
| Net investment in capital assets   | 1,674,512           | 1,660,626           | 1,718,883           | Net investment in capital assets  | 1,674,512           | 1,660,626           | 1,718,883           |
| <b>Total net position</b>  | <b>\$ 3,629,327</b> | <b>\$ 3,217,567</b> | <b>\$ 3,244,324</b> | <b>Total net position</b>   | <b>\$ 4,227,340</b> | <b>\$ 4,106,575</b> | <b>\$ 3,996,671</b> |

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

The Consolidated Statements of Revenues, Expenses, and Changes in Net Position present the University's operating, nonoperating, capital and endowment related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. Operating revenues are those generated by the University's principal ongoing operations such as tuition, sponsored research grants and contracts, and sales and services provided by the University's educational and self-supporting auxiliary units. State appropriations are reported as nonoperating revenues, as are gifts and other revenues, for which the University does not give equal value in exchange for the resources received. Operating revenues have remained consistent at 63 percent of total revenues for fiscal years 2019, 2018 and 2017, respectively.

The University's Revenues for the years ended June 30, 2019, 2018, and 2017



The University's Operating, Nonoperating and Other Revenues for the years ended June 30, 2019, 2018 and 2017  
*(in thousands)*

|  | 2019                | 2018                | 2017                | Increase (Decrease) |               | From 2017 to 2018 |               |
|--|---------------------|---------------------|---------------------|---------------------|---------------|-------------------|---------------|
|  |                     |                     |                     | Amount              | Percent       | Amount            | Percent       |
| <b>Operating revenues</b>                  |                     |                     |                     |                     |               |                   |               |
| Grants and contracts                       | \$ 976,160          | \$ 939,085          | \$ 901,319          | \$ 37,075           | 3.9%          | \$ 37,766         | 4.2%          |
| Student tuition and fees, net              | 823,690             | 797,329             | 774,827             | 26,361              | 3.3%          | 22,502            | 2.9%          |
| Auxiliary enterprises, net                 | 457,742             | 438,118             | 403,088             | 19,624              | 4.5%          | 35,030            | 8.7%          |
| Educational activities                     | 151,320             | 153,335             | 148,981             | (2,015)             | (1.3%)        | 4,354             | 2.9%          |
| Other operating revenue *                  | 213                 | 108                 | 114                 | 105                 | 97.2%         | (6)               | (5.3%)        |
| <b>Total operating revenues</b>            | <b>2,409,125</b>    | <b>2,327,975</b>    | <b>2,228,329</b>    | <b>81,150</b>       | <b>3.5%</b>   | <b>99,646</b>     | <b>4.5%</b>   |
| <b>Nonoperating revenues</b>               |                     |                     |                     |                     |               |                   |               |
| Federal appropriations                     | 17,883              | 21,690              | 17,481              | (3,807)             | (17.6%)       | 4,209             | 24.1%         |
| State appropriations                       | 674,288             | 684,261             | 650,749             | (9,973)             | (1.5%)        | 33,512            | 5.1%          |
| Grants, gifts, and other nonoperating, net | 453,044             | 406,936             | 401,424             | 46,108              | 11.3%         | 5,512             | 1.4%          |
| Net investment gain                        | 146,282             | 166,226             | 147,380             | (19,944)            | (12.0%)       | 18,846            | 12.8%         |
| <b>Total nonoperating revenues</b>         | <b>1,291,497</b>    | <b>1,279,113</b>    | <b>1,217,034</b>    | <b>12,384</b>       | <b>1.0%</b>   | <b>62,079</b>     | <b>5.1%</b>   |
| <b>Total other revenues</b>                | <b>108,345</b>      | <b>110,744</b>      | <b>121,284</b>      | <b>(2,399)</b>      | <b>(2.2%)</b> | <b>(10,540)</b>   | <b>(8.7%)</b> |
| <b>Total revenues (noncapital)</b>         | <b>\$ 3,808,967</b> | <b>\$ 3,717,832</b> | <b>\$ 3,566,647</b> | <b>\$ 91,135</b>    | <b>2.5%</b>   | <b>\$ 151,185</b> | <b>4.2%</b>   |

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

Total revenues increased in fiscal year 2019 by \$91.1 million primarily due to increases in operating revenue, partially offset by decreases in both State and Federal appropriations and investment income. Operating revenues increased \$81.2 million or 3.5 percent mainly due to increases in grants and contracts which supports the University's mission related to Research and Discovery. Student tuition and fees, net increased 3.3 percent as a result of the fiscal year 2019 President's initiatives related to tuition increases. Increases were partially offset by the President's initiatives which include offsetting the resident undergraduate tuition increase for students with the greatest financial need by increased award levels for students eligible for federal Pell and Minnesota state grants, and holding graduate and professional tuition increases flat for certain disciplines to address concerns related to student debt.

Revenues from sales and services of educational activities decreased \$2.0 million due to timing of normal business activity.

State appropriations decreased \$10.0 million compared to an increase of \$33.5 million in fiscal year 2018, decreasing to \$674.3 million from \$684.3 million in fiscal year 2018. In addition to a decrease in operations and maintenance funding effective fiscal year 2017, the State revised the process for the University to receive the appropriation from the Minnesota environment and natural resources trust fund. The new process remits revenue to the University after expenses have been incurred and invoiced.

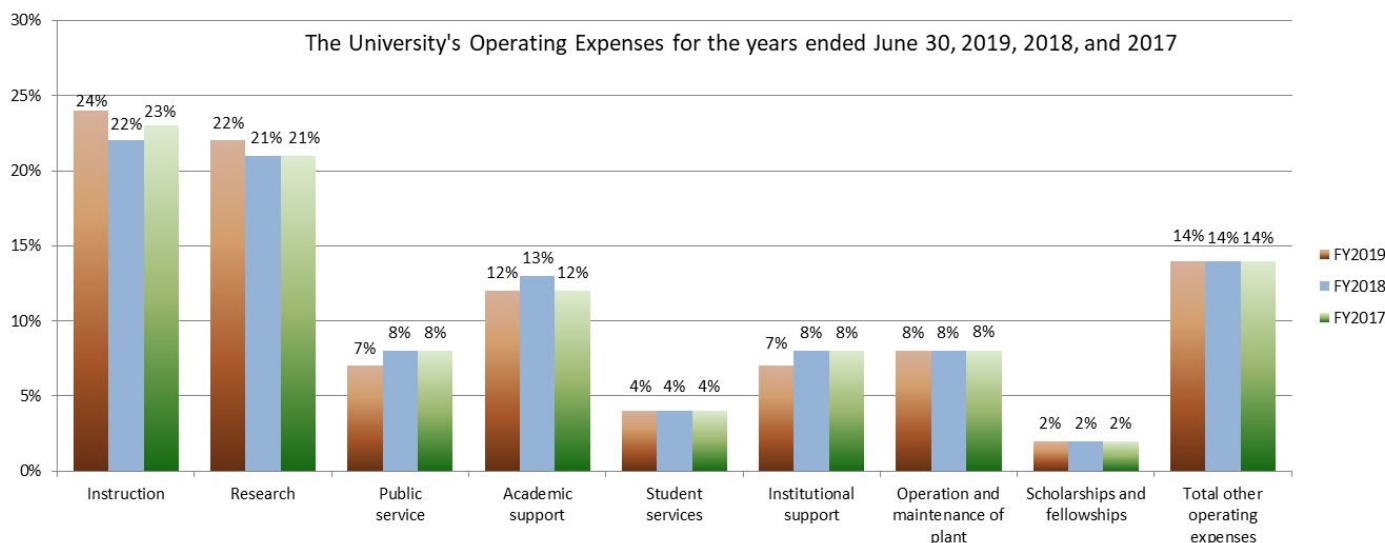
Tuition, educational and auxiliary activities and State appropriations, in addition to other sources of unrestricted revenue, funded a number of University priorities including competitive compensation plans for faculty and staff; various academic initiatives such as MNDrive; enhancement of services to students including technology improvements; upgrades to the financial aid process and freshman seminars; and increases in facilities costs. MNDrive, Minnesota's Discovery, Research, and InnoVation Economy is a landmark partnership between the University and the State of Minnesota that aligns areas of University research strength with the State's key and emerging industries to address grand challenges. In 2013, the Minnesota Legislature authorized an \$18 million recurring annual investment in four research areas: Robotics, Global Food,

Environment, and Brain Conditions. In 2017, the State appropriated another \$4.0 million per year for a fifth research area: Cancer Clinical Trials.

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of \$214.5 million, \$195.6 million, and \$191.0 million, and grants and gifts for capital purposes of \$24.2 million, \$35.7 million, and \$42.2 million in fiscal years 2019, 2018, and 2017, respectively.

For the year ended June 30, 2019, other revenues, which consist of capital appropriations, and capital endowments gifts and grants decreased \$2.4 million or 2.2 percent and \$10.5 million or 8.7 percent in fiscal years 2019 and 2018, respectively. Capital appropriation revenue is received as project expenses are incurred. As projects near completion, the revenue received decreases. During fiscal year 2019, several projects such as the Chemical Sciences and Advanced Materials building on the Duluth campus were completed.

## Total Operating Expenses



The University's Operating Expenses by Functional Category for the years ended June 30, 2019, 2018 and 2017  
*(in thousands)*

|                                       | 2019               | 2018               | 2017               | Increase (Decrease) |               |                   |             |
|---------------------------------------|--------------------|--------------------|--------------------|---------------------|---------------|-------------------|-------------|
|                                       |                    |                    |                    | Amount              | Percent       | From 2017 to 2018 | Percent     |
| <b>Education and general</b>          |                    |                    |                    |                     |               |                   |             |
| Instruction                           | \$801,626          | \$827,200          | \$827,780          | (\$25,574)          | (3.1%)        | (\$580)           | (0.1%)      |
| Research                              | 720,614            | 768,137            | 763,410            | (47,523)            | (6.2%)        | 4,727             | 0.6%        |
| Public service                        | 243,734            | 285,251            | 304,268            | (41,517)            | (14.6%)       | (19,017)          | (6.3%)      |
| Academic support                      | 401,418            | 465,319            | 461,543            | (63,901)            | (13.7%)       | 3,776             | 0.8%        |
| Student services                      | 122,009            | 142,865            | 144,826            | (20,856)            | (14.6%)       | (1,961)           | (1.4%)      |
| Institutional support                 | 238,655            | 314,769            | 297,379            | (76,114)            | (24.2%)       | 17,390            | 5.8%        |
| Operation and maintenance of plant    | 268,839            | 310,674            | 288,588            | (41,835)            | (13.5%)       | 22,086            | 7.7%        |
| Scholarships and fellowships          | 64,524             | 64,589             | 62,060             | (65)                | (0.1%)        | 2,529             | 4.1%        |
| Depreciation                          | 214,336            | 221,797            | 208,645            | (7,461)             | (3.4%)        | 13,152            | 6.3%        |
| <b>Total education and general</b>    | <b>3,075,755</b>   | <b>3,400,601</b>   | <b>3,358,499</b>   | <b>(324,846)</b>    | <b>(9.6%)</b> | <b>42,102</b>     | <b>1.3%</b> |
| <b>Other operating expenses</b>       |                    |                    |                    |                     |               |                   |             |
| Auxiliary enterprises                 | 269,780            | 297,711            | 292,784            | (27,931)            | (9.4%)        | 4,927             | 1.7%        |
| Other operating expenses, net         | 1,070              | 120                | 294                | 950                 | 791.7%        | (174)             | (59.2%)     |
| <b>Total other operating expenses</b> | <b>270,850</b>     | <b>297,831</b>     | <b>293,078</b>     | <b>(26,981)</b>     | <b>(9.1%)</b> | <b>4,753</b>      | <b>1.6%</b> |
| <b>Total operating expenses</b>       | <b>\$3,346,605</b> | <b>\$3,698,432</b> | <b>\$3,651,577</b> | <b>(351,827)</b>    | <b>(9.5%)</b> | <b>46,855</b>     | <b>1.3%</b> |

Total operating expenses decreased \$351.8 million or 9.5 percent in fiscal year 2019 compared to an increase of \$46.9 million or 1.3 percent in fiscal year 2018. Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at \$2.1 billion or 62.3 percent, \$2.4 billion or 65.5 percent and \$2.5 billion or 67.5 percent of operating expenses in fiscal years 2019, 2018 and 2017, respectively. Compensation related expenditures decreased \$338.5 million or 14.0 percent and \$43.5 million or 1.8 percent in fiscal years 2019 and 2018 compared to an increase of \$387.4 million or 18.6 percent in fiscal year 2017. Decreases in compensation related expenditures in fiscal year 2019 and 2018 are primarily due to the University's recording of GASB 68 and 71 pension expenses which resulted in decreases in fringe related expenses of \$291.0 million associated with the decrease in the net pension liability.

Decreases in all functional categories are primarily due to compensation related expenses due to the University's recording of GASB 68 and 71. Institutional Support decreased \$76.1 million during fiscal year 2019, primarily due to GASB 68 and 71 pension expenses and decreases in equipment purchases for the Next Generation Network project, which started in fiscal year 2017. Operation and maintenance of plant expenses decreased \$41.8 million during fiscal year 2019, primarily due the impact of GASB 68 and 71.

## Consolidated Statements of Cash Flows

| The University's Cash Flows for the years ended June 30, 2019, 2018 and 2017<br>(in thousands) |                   |                   |                   |                             |                              |                             |                              |
|--|-------------------|-------------------|-------------------|-----------------------------|------------------------------|-----------------------------|------------------------------|
|  | 2019              | 2018              | 2017              | Increase (Decrease)         |                              |                             |                              |
|  |                   |                   |                   | From 2018 to 2019<br>Amount | From 2018 to 2019<br>Percent | From 2017 to 2018<br>Amount | From 2017 to 2018<br>Percent |
| <b>Cash (used in) provided by</b>  |                   |                   |                   |                             |                              |                             |                              |
| Operating activities   | \$ (1,005,521)    | \$ (1,019,820)    | \$ (990,907)      | \$ 14,299                   | 1.4%                         | \$ (28,913)                 | (2.9%)                       |
| Noncapital financing activities  | 1,149,795         | 1,102,699         | 1,086,731         | 47,096                      | 4.3%                         | 15,968                      | 1.5%                         |
| Capital and related financing activities   | (150,232)         | (142,775)         | (264,733)         | (7,457)                     | (5.2%)                       | 121,958                     | 46.1%                        |
| Investing activities   | (15,093)          | 112,059           | 147,807           | (127,152)                   | 113.5%                       | (35,748)                    | 24.2%                        |
| <b>Net (decrease) increase in cash</b>   | <b>(21,051)</b>   | <b>52,163</b>     | <b>(21,102)</b>   | <b>(73,214)</b>             | <b>(140.4%)</b>              | <b>73,265</b>               | <b>(347.2%)</b>              |
| <b>Cash, beginning of year</b>   | <b>488,868</b>    | <b>436,705</b>    | <b>457,807</b>    | <b>52,163</b>               | <b>11.9%</b>                 | <b>(21,102)</b>             | <b>(4.6%)</b>                |
| <b>Cash, end of year</b>   | <b>\$ 467,817</b> | <b>\$ 488,868</b> | <b>\$ 436,705</b> | <b>\$ (21,051)</b>          | <b>(4.3%)</b>                | <b>\$ 52,163</b>            | <b>11.9%</b>                 |

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

As illustrated in the above table, the University's cash and cash equivalents decreased \$21.1 million compared to fiscal year 2018 due to an increase in cash used for investing activities, partially offset by an increase in cash provided for noncapital financing activities and operating activities.

### Operating Activities

The cash used by operating activities decreased \$14.3 million compared to fiscal year 2018 primarily due to the timing of normal business activities.

### Noncapital Financing Activities

The cash provided by noncapital financing activities increased \$47.1 million compared to an increase of \$16.0 million in fiscal year 2018. The most significant sources of cash provided included State appropriations totaling \$674.5 million and \$684.3 million, grants totaling \$223.2 million and \$200.9 million, and gifts totaling \$214.4 million and \$186.6 million in 2019 and 2018, respectively.

### Capital and Related Financing Activities

The cash used by capital and related financing activities increased \$7.5 million primarily due to a decrease in cash flow related principal payments on debt, partially offset by cash flow from new debt issuances. During fiscal year 2019, the University issued \$175.5 million and \$73.6 million in new bond issuances and commercial paper, respectively, compared to \$423.3 million and \$32.0 million in new bond issuances and commercial paper in fiscal year 2018. Cash inflows for capital acquisitions from capital appropriations, capital grants and gifts and bonds issued during the year funded a portion of the University's equipment needs and ongoing renovation and construction initiatives.

## **Investing Activities**

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

Long-term endowment and other investments included increases from net unrealized gains on the endowment and other investments of \$12.1 million, \$96.4 million, and \$82.6 million in fiscal years 2019, 2018 and 2017, respectively. Annual distributions of the endowment to departments, partially offset by reinvested endowment earnings, decreased investments by \$62.2 million, \$59.7 million and \$56.4 million in fiscal years 2019, 2018 and 2017, respectively.

To provide a relatively stable level of support for endowed programs, a specified percentage rate based on a five-year, moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.5 percent in fiscal years 2019, 2018 and 2017.

## **Factors Affecting Future Financial Condition**

The University is the flagship research institution in the state of Minnesota. It has received historically strong support from the state, its academic quality attracts record numbers of applications, it has a diversified mix of revenue streams which augment tuition and state support, and it enjoys a strong credit rating which enables a low cost of borrowing. Maintaining these competitive advantages, and managing operating costs, is more important than ever to the overall results of operations. The following provides some insights into the factors which could impact the University.

*State support for operations and maintenance* – Continued state support is an important component of future fiscal health for the University. For the FY 20-21 biennium, base funding for the University has been set in law at \$1,345 million, a \$43.5 million (3.3%) increase over the prior biennial base. The Legislature funded portions of the University's requested \$87 million, but did not fully fund the University's request for core mission support. The University will need to cover operating cost increases through other revenue increases and through operating cost containment.

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

- Renovating or removing buildings that are considered to be “critical” as deemed by the Facilities Condition Assessment criteria
- Advancing the Health Sciences
- Modernizing St. Paul campus research laboratories
- Expanding facilities capacity in science, technology, engineering, and math programs
- Repositioning the University's libraries for the 21<sup>st</sup> Century

The University's top capital request priorities for the 2019 Legislative session consisted of funding for Higher Education Asset Preservation and Renewal (\$200 million), renovation of the Child Development Center building (\$28 million), and funding for renovation of the A.B Anderson Hall on the Duluth campus (\$4.3 million). Unfortunately the Legislature did not pass a bonding bill during the 2019 regular session or the subsequent special session. Going forward, there will be a growing need for funding that maintains and renews existing University facilities, to avoid a worsening backlog of unfunded maintenance. The University will

increasingly focus its state capital requests on Higher Education Asset Preservation and Replacement (HEAPR) as a source of funding to maintain and renew existing facilities.

*Federal funding* – The University ranks number 9 among public research universities in federal funding for research and development, thanks to the productivity and ingenuity of its faculty. The tightening of the federal budget, the failure of the United States Congress to adopt annual budgets which provide stability and predictability, and the policy directions of the current presidential administration have created a high level of uncertainty about federal funding for many universities. A significant decrease in federal funding would have negative consequences to the University’s research enterprise. Fortunately, due to the quality of the institution’s faculty, the University has seen success in competitive awards of federal research dollars, with awards from NIH (the largest provider of federal funding) up \$31.3 million (17.1%) through three quarters of FY 2019. Additionally, the University has been successful in pursuing sponsored funding from other sources to mitigate the risk of federal funding cutbacks.

*Technology commercialization* – The University of Minnesota has been in the forefront in commercializing University inventions. The University ranked 6<sup>th</sup> among public university commercialization offices in a 2017 Milken Institute study. Successes include 900 active patents, 1,800 active technology licenses, and over 150 startups launched from University of Minnesota technology, including 19 during FY 2019.

Technology commercialization provides a source of revenue to supplement traditional revenue streams. Growth in commercializing technology developed at the University will be important to maintaining the University’s research enterprise and generating new revenue streams.

*Undergraduate applications and enrollment* – The University has built a national reputation and a pipeline of non-resident / non-reciprocity undergraduate students. For FY 2019, fall semester undergraduate freshman applications and acceptances were 58,176 and 32,734, respectively, which was essentially flat from the prior year. As a part of the FY 2019 approved budget, undergraduate tuition was increased 2% for resident Minnesota students, and 15% for non-resident students who are not covered by an interstate reciprocity agreement. The University’s ability to consistently find the point of equilibrium between price and demand will be important to maintain the tuition revenue stream.

*Expenses and cost containment* – The University’s primary operating costs are the salaries and benefits paid to a highly trained, world-class academic workforce. The University has been benchmarking the costs of delivering its core mission, and completed a six year cost-containment program designed to reduce \$90 million in costs not directly related to its core mission. The savings have been reallocated to higher-priority direct mission activities. Cost containment is critical to making sure a University of Minnesota education is affordable. Upon the completion of the 6-year program cost reallocation program, the University will need to continue its cost-containment efforts while finding new ways to reduce operating costs without impacting teaching, research, and outreach mission.

*The University’s partnership with Fairview Health Services* – The University has had a long-term academic affiliation agreement with Fairview Health Services, the health care organization that purchased the University’s on-campus hospital in 1996. A strong partnership is vital to supporting and strengthening the research, outreach, and medical education mission of the University of Minnesota Medical School.

A new agreement between Fairview and the University went into effect on January 1, 2019. The agreement creates a new “joint clinical enterprise” that better aligns Fairview and the University’s goals for research and clinical care. Major elements of the agreement include organizational changes, new branding, and improved financial support to the University’s academic medicine enterprise. The new agreement provides for an

increase in fixed financial support to the Medical School, from \$8.75 million in 2018 to \$40 million in 2019, with additional annual increases of \$5 million for FY 2020 and FY 2021. This is a significant improvement in financial support for the University, and demonstrates the strengthened relationship between the University and Fairview.

**University of Minnesota**  
**Consolidated Statements of Net Position (Excluding Component Units)**  
June 30, 2019 and 2018 (in thousands)

|                                       | <b>2019</b>  | <b>2018</b>   |
|---------------------------------------|--------------|---------------|
| <b>Assets</b>                         |              |               |
| Current assets                        |              |               |
| Cash and cash equivalents             | \$ 405,247   | \$ 463,460    |
| Short-term investments                | 271,618      | 263,676       |
| Receivables, net                      | 359,679      | 309,741       |
| Inventories                           | 19,319       | 19,389        |
| Student loans receivable, net         | 9,346        | 10,079        |
| Prepaid expenses                      | 34,280       | 36,575        |
| Other assets                          | 350          | 560           |
| Total current assets                  | 1,099,839    | 1,103,480     |
| Noncurrent assets                     |              |               |
| Restricted cash and cash equivalents  | 62,570       | 25,408        |
| Investments                           | 2,053,182    | 1,897,897     |
| Receivables, net                      | 11,269       | 11,039        |
| Student loan receivables, net         | 59,337       | 63,582        |
| Prepaid expenses                      | 12,160       | 15,005        |
| Other assets                          | 2,958        | 2,780         |
| Capital assets, net                   | 3,234,494    | 3,185,317     |
| Total noncurrent assets               | 5,435,970    | 5,201,028     |
| Total assets                          | 6,535,809    | 6,304,508     |
| <b>Deferred Outflows of Resources</b> | 618,869      | 948,273       |
| <b>Liabilities</b>                    |              |               |
| Current liabilities                   |              |               |
| Accounts payable                      | 163,956      | 137,764       |
| Accrued liabilities and other         | 327,918      | 315,696       |
| Unearned income                       | 64,408       | 64,889        |
| Long-term debt                        | 320,119      | 346,794       |
| Total current liabilities             | 876,401      | 865,143       |
| Noncurrent liabilities                |              |               |
| Accrued liabilities and other         | 347,396      | 1,250,400     |
| Unearned income                       | 44           | 44            |
| Long-term debt                        | 1,293,363    | 1,194,995     |
| Total noncurrent liabilities          | 1,640,803    | 2,445,439     |
| Total liabilities                     | 2,517,204    | 3,310,582     |
| <b>Deferred Inflows of Resources</b>  | 1,008,147    | 724,632       |
| <b>Net Position</b>                   |              |               |
| Unrestricted                          | 602,509      | 345,558       |
| Restricted                            | 1,038,042    | 901,976       |
|                                       | Expendable   | Nonexpendable |
|                                       | 314,264      | 309,407       |
| Net investment in capital assets      | 1,674,512    | 1,660,626     |
| Total net position                    | \$ 3,629,327 | \$ 3,217,567  |

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

**University of Minnesota**  
**Component Units – Statements of Financial Position**  
June 30, 2019 and 2018 (in thousands)

|  | <b>University of Minnesota<br/>Foundation</b> |                     | <b>University of Minnesota<br/>Physicians</b> |                   |
|--|---|---------------------|---|-------------------|
|  | <b>2019</b>                                   | <b>2018</b>         | <b>2019</b>                                   | <b>2018</b>       |
| <b>Assets</b>  |   |                     |   |                   |
| Cash and cash equivalents  | \$ 26,722                                     | \$ 35,071           | \$ 97,904                                     | \$ 82,464         |
| Investments, substantially at fair market value                          | 2,905,798                                     | 2,654,606           | 24,023  | 21,750            |
| Pledges receivable, net  | 191,366                                       | 204,696             |   |                   |
| Accounts and other receivables   | 20,282  | 42,459              | 99,528  | 111,075           |
| Interest in charitable lead trusts, unitrusts, pooled income, and trusts | 86,836  | 86,446              |   |                   |
| Gift annuities   | 35,452  | 30,876              |   |                   |
| Property and equipment, net  | 82,214  | 85,284              | 6,722   | 5,760             |
| Prepays and other assets   |   |                     | 16,536  | 2,831             |
| Total assets   | <b>3,348,670</b>                              | <b>3,139,438</b>    | <b>244,713</b>                                | <b>223,880</b>    |
| <b>Liabilities</b>   |   |                     |   |                   |
| Accounts payable and accrued liabilities                                 | 20,229  | 24,294              | 141,854                                       | 122,938           |
| Gift annuities payable   | 17,744  | 16,313              |   |                   |
| Unitrusts, pooled income, and annuity trusts payable                     | 10,616  | 11,016              |   |                   |
| Investments held for custody of others                                   | 294,385                                       | 261,608             |   |                   |
| Long-term debt   | 46,977  | 47,828              | 2,174   | 2,531             |
| Total liabilities  | <b>389,951</b>                                | <b>361,059</b>      | <b>144,028</b>                                | <b>125,469</b>    |
| <b>Net Assets</b>  |   |                     |   |                   |
| Without donor restrictions   | 133,958                                       | 132,822             | 100,685                                       | 98,411            |
| With donor restrictions  | 2,824,761                                     | 2,645,557           |   |                   |
| Total net assets   | <b>2,958,719</b>                              | <b>2,778,379</b>    | <b>100,685</b>                                | <b>98,411</b>     |
| Total liabilities and net assets   | <b>\$ 3,348,670</b>                           | <b>\$ 3,139,438</b> | <b>\$ 244,713</b>                             | <b>\$ 223,880</b> |

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

**University of Minnesota**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Position**  
**(Excluding Component Units)**  
Years ended June 30, 2019 and 2018 (in thousands)

|  |   | <b>2019</b>         | <b>2018</b>         |
|--|---|---------------------|---------------------|
| <b>Revenues</b>                            |   |                     |                     |
| Operating revenues                         | Student tuition and fees, net of scholarship allowances of \$302,655 in 2019; \$294,095 in 2018           | \$ 823,690          | \$ 797,329          |
|  | Federal grants and contracts  | 479,820             | 453,498             |
|  | State and other government grants   | 87,042              | 85,741              |
|  | Nongovernmental grants and contracts  | 409,298             | 399,846             |
|  | Student loan interest income  | 2,053               | 1,998               |
|  | Sales and services of educational activities, net of scholarship allowances of \$26 in 2019; \$45 in 2018 | 149,267             | 151,337             |
|  | Auxiliary enterprises, net of scholarship allowances of \$12,444 in 2019; \$12,106 in 2018                | 457,742             | 438,118             |
|  | Other operating revenues  | 213                 | 108                 |
| Total operating revenues                   |   | <b>2,409,125</b>    | <b>2,327,975</b>    |
| <b>Expenses</b>                            |   |                     |                     |
| Operating expenses                         | Education and general   |                     |                     |
|  | Instruction   | 801,626             | 827,200             |
|  | Research  | 720,614             | 768,137             |
|  | Public service  | 243,734             | 285,251             |
|  | Academic support  | 401,418             | 465,319             |
|  | Student services  | 122,009             | 142,865             |
|  | Institutional support   | 238,655             | 314,769             |
|  | Operation & maintenance of plant  | 268,839             | 310,674             |
|  | Scholarships & fellowships  | 64,524              | 64,589              |
|  | Depreciation  | 214,336             | 221,797             |
|  | Auxiliary enterprises   | 269,780             | 297,711             |
|  | Other operating expenses, net   | 1,070               | 120                 |
| Total operating expenses                   |   | <b>3,346,605</b>    | <b>3,698,432</b>    |
| <b>Operating Loss</b>                      |   | <b>(937,480)</b>    | <b>(1,370,457)</b>  |
| <b>Nonoperating Revenues (Expenses)</b>    |   |                     |                     |
| Federal appropriations                     |   | 17,883              | 21,690              |
| State appropriations                       |   | 674,288             | 684,261             |
| Grants                                     |   | 230,057             | 204,018             |
| Gifts                                      |   | 214,458             | 195,612             |
| Investment income, net                     |   | 146,282             | 166,226             |
| Interest on capital-asset related debt     |   | (50,602)            | (46,157)            |
| Other nonoperating revenues, net           |   | 8,529               | 7,306               |
| Net nonoperating revenues                  |   | <b>1,240,895</b>    | <b>1,232,956</b>    |
| <b>Income (Loss) Before Other Revenues</b> |   | <b>303,415</b>      | <b>(137,501)</b>    |
| Capital appropriations                     |   | 80,446              | 74,587              |
| Capital grants & gifts                     |   | 24,219              | 35,711              |
| Additions to permanent endowments          |   | 3,680               | 446                 |
| Total other revenues                       |   | <b>108,345</b>      | <b>110,744</b>      |
| <b>Increase (Decrease) In Net Position</b> |   | <b>411,760</b>      | <b>(26,757)</b>     |
| Net position at beginning of year          |   | <b>3,217,567</b>    | <b>3,244,324</b>    |
| Net position at end of year                |   | <b>\$ 3,629,327</b> | <b>\$ 3,217,567</b> |

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

**University of Minnesota**  
**Component Units – Statements of Activities**  
Years ended June 30, 2019 and 2018 (in thousands)

|  | <b>University of Minnesota Foundation</b> |                                    |                       |                       |
|--|---|------------------------------------|-----------------------|-----------------------|
|  | <b>Without donor<br/>restrictions</b>     | <b>With donor<br/>restrictions</b> | <b>Total<br/>2019</b> | <b>Total<br/>2018</b> |
| <b>Revenues</b>                                  |   |                                    |                       |                       |
| Contributions                                    | \$ 685                                    | \$ 223,456                         | \$ 224,141            | \$ 253,443            |
| Investment income, net                           | 331                                       | 19,967                             | 20,298                | 12,953                |
| Net realized and unrealized gains on investments | 809                                       | 187,043                            | 187,852               | 168,580               |
| Change in value of trusts                        | (10)                                      | 2,169                              | 2,159                 | 2,473                 |
| Support services revenue                         | 7,165                                     |                                    | 7,165                 | 7,165                 |
| UMF - Real Estate Advisors rental revenue        | 7,034                                     |                                    | 7,034                 | 6,572                 |
| University Gateway Corporation revenue           | 4,702                                     |                                    | 4,702                 | 4,787                 |
| Other revenue                                    | 2   |                                    | 2                     | 1,854                 |
| Net assets released from restriction             | 253,431                                   | (253,431)                          |                       |                       |
| <b>Total revenues</b>                            | <b>274,149</b>                            | <b>179,204</b>                     | <b>453,353</b>        | <b>457,827</b>        |
| <b>Expenses</b>                                  |   |                                    |                       |                       |
| Program services                                 |   |                                    |                       |                       |
| Distributions for University purposes            | 210,433                                   |                                    | 210,433               | 188,482               |
| Support services                                 |   |                                    |                       |                       |
| Management and general                           | 11,086                                    |                                    | 11,086                | 10,376                |
| Promotion and development                        | 36,791                                    |                                    | 36,791                | 37,858                |
| UMF - Real Estate Advisors                       | 6,964                                     |                                    | 6,964                 | 6,476                 |
| University Gateway Corporation                   | 7,739                                     |                                    | 7,739                 | 5,801                 |
| <b>Total expenses</b>                            | <b>273,013</b>                            |                                    | <b>273,013</b>        | <b>248,993</b>        |
| Increase in net assets                           | 1,136                                     | 179,204                            | 180,340               | 208,834               |
| Net assets at beginning of year                  | 132,822                                   | 2,645,557                          | 2,778,379             | 2,569,545             |
| <b>Net assets at end of year</b>                 | <b>\$ 133,958</b>                         | <b>\$ 2,824,761</b>                | <b>\$ 2,958,719</b>   | <b>\$ 2,778,379</b>   |

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

**University of Minnesota**  
**Component Units – Statements of Activities**  
Years ended June 30, 2019 and 2018 (in thousands)

|   | <b>University of Minnesota<br/>Physicians</b> |                  |
|---|---|------------------|
|   | <b>Total (unrestricted)</b>                   |                  |
|   | <b>2019</b>                                   | <b>2018</b>      |
| <b>Revenues</b>                                   |   |                  |
| Net patient service revenue                       | \$ 126,341                                    | \$ 184,259       |
| Investment income, net                            | 1,368   | 625              |
| Net realized and unrealized losses on investments | 53  | (82)             |
| Equity in income of equity method investees       | (15,034)                                      | (16,150)         |
| Other revenue                                     | 516,419                                       | 402,402          |
| <b>Total revenues</b>                             | <b>629,147</b>                                | <b>571,054</b>   |
| <b>Expenses</b>                                   |   |                  |
| Program services                                  |   |                  |
| Health care services                              | 569,231                                       | 532,378          |
| Support services                                  |   |                  |
| Management and general                            | 57,642  | 55,107           |
| <b>Total expenses</b>                             | <b>626,873</b>                                | <b>587,485</b>   |
| Increase (decrease) in net assets                 | 2,274   | (16,431)         |
| Net assets at beginning of year                   | 98,411  | 114,842          |
| <b>Net assets at end of year</b>                  | <b>\$ 100,685</b>                             | <b>\$ 98,411</b> |

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

**University of Minnesota**  
**Consolidated Statements of Cash Flows (Excluding Component Units)**  
Years ended June 30, 2019 and 2018 (in thousands)

|   | <b>2019</b>        | <b>2018</b>        |
|---|--------------------|--------------------|
| <b>Cash Flows From Operating Activities</b>                     |                    |                    |
| Grants and contracts (federal, state, nongovernmental, other)   | \$ 956,874         | \$ 912,244         |
| Student tuition and fees  | 820,392            | 797,185            |
| Auxiliary enterprises   | 455,859            | 439,505            |
| Sales and services of educational activities                    | 148,934            | 148,961            |
| Collection of loans to students                                 | 12,891             | 12,262             |
| Other operating revenues  | 459                | 109                |
| Payments to employees for services                              | (1,770,015)        | (1,724,571)        |
| Payments to suppliers for goods and services                    | (979,822)          | (978,280)          |
| Payments for fringe benefits                                    | (591,483)          | (565,039)          |
| Payments for scholarships and fellowships                       | (53,027)           | (50,257)           |
| Loans issued to students  | (6,583)            | (11,939)           |
| Net cash used by operating activities                           | <u>(1,005,521)</u> | <u>(1,019,820)</u> |
| <b>Cash Flows From Noncapital Financing Activities</b>          |                    |                    |
| State appropriations  | 674,476            | 684,261            |
| Grants for other than capital purposes                          | 223,146            | 200,903            |
| Gifts for other than capital purposes                           | 214,402            | 186,607            |
| Federal appropriations  | 21,287             | 19,171             |
| Other nonoperating revenues, net                                | 12,656             | 10,449             |
| Private gifts for endowment purposes                            | 3,664              | 446                |
| Direct lending receipts   | 368,758            | 375,479            |
| Direct lending disbursements                                    | (368,473)          | (375,306)          |
| Agency transactions   | (121)              | 689                |
| Net cash provided by noncapital financing activities            | <u>1,149,795</u>   | <u>1,102,699</u>   |
| <b>Cash Flows From Capital and Related Financing Activities</b> |                    |                    |
| Proceeds from capital debt                                      | 220,301            | 178,538            |
| Capital appropriations  | 79,409             | 72,377             |
| Capital grants and gifts  | 20,791             | 34,072             |
| Proceeds from sale of capital assets                            | 1,630              | 1,482              |
| Principal received on notes receivable                          | 551                | 785                |
| Interest received on notes receivable                           | 455                | 477                |
| Purchases of capital assets                                     | (250,174)          | (279,992)          |
| Principal paid on capital debt                                  | (163,485)          | (94,617)           |
| Interest paid on capital debt                                   | (59,710)           | (55,813)           |
| Issuance of notes receivable                                    | (84)               |                    |
| Net cash used by capital and related financing activities       | <u>(150,232)</u>   | <u>(142,775)</u>   |
| <b>Cash Flows From Investing Activities</b>                     |                    |                    |
| Proceeds from sales and maturities of investments               | 20,185,458         | 17,942,965         |
| Purchase of investments   | (20,308,942)       | (17,896,905)       |
| Investment income, net  | 108,391            | 65,999             |
| Net cash (used) provided by investing activities                | <u>(15,093)</u>    | <u>112,059</u>     |
| <b>Net (Decrease) Increase in Cash and Cash Equivalents</b>     |                    |                    |
| <b>Cash and Cash Equivalents at Beginning of Year</b>           | <b>488,868</b>     | <b>436,705</b>     |
| <b>Cash and Cash Equivalents at End of Year</b>                 | <b>\$ 467,817</b>  | <b>\$ 488,868</b>  |

**University of Minnesota**  
**Consolidated Statements of Cash Flows (Excluding Component Units)**  
Years ended June 30, 2019 and 2018 (in thousands)

|   | <b>2019</b>           | <b>2018</b>           |
|---|-----------------------|-----------------------|
| <b>Reconciliation of Net Operating Revenues (Expenses)<br/>to Net Cash Used by Operating Activities</b> |                       |                       |
| Operating loss  | \$ (937,480)          | \$ (1,370,457)        |
| Adjustments to reconcile operating loss to net cash used by operating activities                        |                       |                       |
| Depreciation expense  | 214,336               | 221,797               |
| Changes in assets, deferred outflows of resources, liabilities, and<br>deferred inflows of resources    |                       |                       |
| Receivables, net  | (17,022)              | (30,871)              |
| Inventories   | 69                    | 681                   |
| Prepaid and other items   | 5,721                 | 14,355                |
| Deferred outflows of resources  | 272,668               | 287,610               |
| Accounts payable  | 8,430                 | 4,942                 |
| Accrued liabilities   | (173,357)             | 98,902                |
| Unearned income   | (4,255)               | 2,596                 |
| Deferred inflows of resources   | (374,631)             | (249,375)             |
| Net cash used by operating activities   | <u>\$ (1,005,521)</u> | <u>\$ (1,019,820)</u> |
| <b>Noncash Investing, Capital, and Financing Activities</b>   |                       |                       |
| Realized gains on investments for stock distributions   | \$ 24,654             |                       |
| Capital assets acquired with capital lease  | 22,420                | \$ 2,717              |
| Capital assets on account   | 21,773                | 29,546                |
| Unrealized gains on investments   | 9,782                 | 109,358               |
| Amortization of bond discount/premium   | 7,024                 | 6,025                 |
| Net unsettled investment trades   | 5,173                 | 15,606                |
| Contribution of capital assets  | 3,192                 | 3,023                 |
| Net gain on retirement of debt  | 519                   | 3,799                 |
| <b>Cash and Cash Equivalents at End of Year</b>   |                       |                       |
| Cash and cash equivalents   | \$ 405,247            | \$ 463,460            |
| Restricted cash and cash equivalents  | 62,570                | 25,408                |
| Total cash and cash equivalents at end of year  | <u>\$ 467,817</u>     | <u>\$ 488,868</u>     |

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

**Notes to Consolidated Financial Statements**  
Years ended June 30, 2019 and 2018 (in thousands)

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

**Organization**

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

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

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

**Reporting Entity**

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

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

**RUMINCO, Ltd.**

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

**2515 University Ave SE, LLC**

2515 University Ave SE, LLC (University Village) is a wholly owned company of the University. Although it is legally separate from the University, University Village is reported as if it were part of the University. University Village provides spacious, affordable living on the Twin Cities campus.

**Discretely Presented Component Units**—The University's consolidated financial statements include the financial data of two tax-exempt component units. They are reported in separate columns on separate pages.

GASB 61 requires discrete presentation of component units when either the resources held by these entities can only be used by, or for the benefit of, the University or its component units; or the component units are closely related to, or financially integrated with the University.

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

### **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 UMF is an independent organization, the majority of resources that it holds and invests, including income from its investments, are restricted by donors to the activities of the University. The factor that contributes to UMF being classified as a discretely presented component unit relates to the significant resources UMF holds on behalf of the University. The University has access to these resources.

During fiscal years 2019 and 2018, the UMF distributed \$248,480 and \$226,239, respectively, to the University. Complete financial statements for the University of Minnesota Foundation can be obtained from the UMF office, McNamara Alumni Center, 200 Oak Street S.E., Suite 500, Minneapolis, MN 55455.

### **University of Minnesota Physicians**

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

During fiscal years 2019 and 2018, UMP distributed \$105,828 and \$97,819, 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.

### **Joint Ventures**

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

## **2407 University Investment, LLC**

The University is a participant in a joint venture, 2407 University Investment, LLC with United Properties Investment, LLC. The joint venture owns and operates a hotel and acts as a lessor of a restaurant on property adjacent to the Twin Cities campus. The joint venture also provides the University the opportunity to plan with United Properties Investment, LLC future redevelopment of the parcel of land. It is governed by a five member board of governors, for which the University shall have the right to appoint two of the governors. In addition, the University has a 49 percent membership with an equity interest of \$1,458 and \$1,489 as of June 30, 2019 and 2018, respectively. During fiscal year ended June 30, 2014, the University provided an interest-bearing loan to the joint venture in the amount of \$8,750, which is expected to be repaid over a period of 20 years. During fiscal years 2019 and 2018, the University received \$415 and \$416, respectively, in interest income. As of June 30, 2019 and 2018, \$8,617 and \$8,750, respectively, in principal remains outstanding. Complete financial statements can be obtained from 2407 University Investment, LLC, c/o United Properties Investment, LLC, 3600 American Blvd, Ste. 750, Minneapolis, MN 55431.

### **Financial Statement Presentation**

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

### **Basis of Accounting**

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

### **Significant Accounting Policies**

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

**Investments**—Investments are reported at fair value, which represents the price that would be received to sell the investment in an orderly transaction between market participants. The University's investments are valued using a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace in accordance with GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application*. Observable inputs reflect market data obtained from sources independent of the University and unobservable inputs reflect the University's own assumptions about how market participants would value the investment based on the best information available. The University uses various industry standard valuation techniques that are appropriate under the circumstances and for which sufficient information is available to determine fair value—maximizing the use of observable inputs, while minimizing the use of unobservable inputs. Purchases and sales of investments are recorded on a trade date basis. Investment income includes: interest income; realized and unrealized gains and losses; and investment related expenses.

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

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

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

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

**Capital Assets**—Land, buildings, and other property are recorded at cost, if purchased or constructed or at market value on the date of gift, if received by gift or bequest. Depreciation is determined using the straight-line method, based on the estimated useful lives of the assets. Interest that qualified for interest capitalization is \$1,268 and \$4,033 for fiscal years 2019 and 2018, respectively.

The University entered into a direct financing lease in fiscal year 2016, related to the Clinic and Surgery Center with Fairview Health and University of Minnesota Physicians (UMP). The term of the lease is 30 years. The University has elected to report this under capital assets, as the University retained title to the building. The current portion of the lease is recorded as a current receivable. See Note 3 and Note 4 for additional information.

The following schedule summarizes the useful lives and capitalization thresholds:

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

**Deferred Outflows of Resources**—Deferred outflows of resources represent current fiscal year contributions made to the University’s participation in certain State of Minnesota cost-sharing, multiple employer defined benefit plans, as well as changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the respective plan’s net pension liability (NPL) and changes in the University’s proportionate share in the NPL. Additional information regarding pensions is discussed in Note 6. In addition, a portion of the balance is attributed to the University’s UPlan other postemployment benefits (OPEB) for changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the OPEB liability. Additional information regarding other postemployment benefits is discussed in Note 10. The last portion of the balance represents a loss related to the defeasance of long-term debt. Additional information regarding long-term debt is discussed in Note 5.

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

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

**Deferred Inflows of Resources**—Deferred inflows of resources represent the changes in the actuarial assumptions and methods used to calculate the NPL related to the University’s participation in the State of Minnesota’s cost-sharing, multiple employer defined benefit plans, as well as changes in the University’s proportionate share in the NPL. Additional information regarding pensions is discussed in Note 6. In addition, a portion of the balance is attributed to the University’s UPlan other postemployment benefits (OPEB) for changes in actuarial assumptions and methods and differences between expected and actual experience related to the measurement of the OPEB liability. Additional information regarding other postemployment benefits is discussed in Note 10. The last portion of the balance represents a gain related to the defeasance of long-term debt. Additional information regarding long-term debt is discussed in Note 5.

**Net Position**—Net position is reported in the following three components:

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

- **Restricted:**

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

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

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

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

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

**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 and legal settlements are classified as

nonoperating revenues as part of other nonoperating revenues, net. Insurance recovery proceeds were \$965 and \$2,241 for fiscal years 2019 and 2018, 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 11.

During fiscal years 2019 and 2018, nonsponsored departmental research \$240,918 and \$239,214 respectively, was recorded in both research expense and depreciation expense.

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

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

## New Accounting Pronouncements

GASB has issued new accounting standards that may be applicable to the University effective in future fiscal years.

GASB Statement No. 84 (GASB 84), *Fiduciary Activities*, establishes criteria for identifying fiduciary activities. The focus of the criteria generally is on (1) when the University is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria apply to identify fiduciary component units and postemployment benefit arrangements. An activity meeting the criteria will require the University to present a statement of fiduciary net position and a statement of changes in fiduciary net position. GASB 84 also provides guidance on recognition of a liability to the beneficiaries in a fiduciary fund when the University is obligated to disburse fiduciary resources. The provisions of GASB 84 are effective for fiscal year 2020.

GASB Statement No. 87 (GASB 87), *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. As a result, recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues) or outflows of resources (expenses) based on the payment provisions of the contract. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of GASB 87 are effective for fiscal year 2021.

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

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

GASB Statement No. 91 (GASB 91), *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice. These objectives are achieved by clarifying the definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The provisions of GASB 91 are effective for fiscal year 2022.

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, 2019 could affect the market values reported in the consolidated financial statements.

The following table summarizes cash and investments as of June 30, 2019:

|                                      | <b>Temporary<br/>Investment<br/>Pool</b> | <b>Consolidated<br/>Endowment<br/>Fund</b> | <b>Group<br/>Income<br/>Pool</b> | <b>Separately<br/>Invested<br/>Funds and<br/>Other</b> | <b>Invested<br/>Assets<br/>Related to<br/>Indebtedness</b> | <b>RUMINCO, Ltd.<br/>Insurance<br/>Subsidiary</b> | <b>Total</b>        |
|--------------------------------------|--|--|----------------------------------|--|--|---|---------------------|
| Cash and cash equivalents            | \$ 383,976                               | \$ 20,670                                  | \$ 505                           |  |  | \$ 96   | \$ 405,247          |
| Short-term investments               | 253,695                                  | 17,034                                     | 889                              |  |  |   | 271,618             |
| <b>Total current assets</b>          | <b>637,671</b>                           | <b>37,704</b>                              | <b>1,394</b>                     |  |  | <b>96</b>   | <b>676,865</b>      |
|                                      |  |  |                                  |  |  |   |                     |
| Restricted cash and cash equivalents |  |  |                                  |  | \$ 62,570  |   | \$ 62,570           |
|                                      |  |  |                                  |  |  |   |                     |
| Long-term investments                |  |  |                                  |  |  |   |                     |
| Fixed income                         | 484,697                                  | 306,357                                    | 64,035                           |  |  | 16,773  | 871,862             |
| Public equity                        |  | 357,069                                    |                                  |  |  | 34,676  | 391,745             |
| Private capital                      |  | 523,989                                    |                                  | \$ 8,402   |  |   | 532,391             |
| Inflation hedges                     |  | 141,254                                    |                                  |  |  |   | 141,254             |
| Other                                | 115,827                                  |  |                                  | 13   |  | 90  | 115,930             |
| <b>Total noncurrent investments</b>  | <b>484,697</b>                           | <b>1,444,496</b>                           | <b>64,035</b>                    | <b>8,415</b>   |  | <b>51,539</b>                                     | <b>2,053,182</b>    |
| <b>Total cash and investments</b>    | <b>\$ 1,122,368</b>                      | <b>\$ 1,482,200</b>                        | <b>\$ 65,429</b>                 | <b>\$ 8,415</b>  | <b>\$ 62,570</b>   | <b>\$ 51,635</b>                                  | <b>\$ 2,792,617</b> |

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

|                                      | <b>Temporary<br/>Investment<br/>Pool</b> | <b>Consolidated<br/>Endowment<br/>Fund</b> | <b>Group<br/>Income<br/>Pool</b> | <b>Separately<br/>Invested<br/>Funds and<br/>Other</b> | <b>Related to<br/>Indebtedness</b> | <b>RUMINCO, Ltd.<br/>Insurance<br/>Subsidiary</b> | <b>Total</b>        |
|--------------------------------------|--|--|----------------------------------|--|------------------------------------|---|---------------------|
| Cash and cash equivalents            | \$ 442,520                               | \$ 20,119                                  | \$ 772                           |  |                                    | \$ 49   | \$ 463,460          |
| Short-term investments               | 235,889                                  | 27,719                                     | 68                               |  |                                    |   | 263,676             |
| <b>Total current assets</b>          | <b>678,409</b>                           | <b>47,838</b>                              | <b>840</b>                       |  |                                    | <b>49</b>   | <b>727,136</b>      |
| Restricted cash and cash equivalents |  |  |                                  |  | \$ 25,408                          |   | 25,408              |
| Long-term investments                |  |  |                                  |  |                                    |   |                     |
| Fixed income                         | 374,453                                  | 260,952                                    | 70,090                           |  |                                    | 15,426  | 720,921             |
| Public equity                        |  | 399,913                                    |                                  |  |                                    | 32,747  | 432,660             |
| Private capital                      |  | 453,307                                    |                                  | \$ 5,034   |                                    |   | 458,341             |
| Inflation hedges                     |  | 147,115                                    |                                  |  |                                    |   | 147,115             |
| Other                                | 138,624                                  |  | 23                               |  |                                    | 213   | 138,860             |
| <b>Total noncurrent investments</b>  | <b>374,453</b>                           | <b>1,399,911</b>                           | <b>70,090</b>                    | <b>5,057</b>   |                                    | <b>48,386</b>                                     | <b>1,897,897</b>    |
| <b>Total cash and investments</b>    | <b>\$ 1,052,862</b>                      | <b>\$ 1,447,749</b>                        | <b>\$ 70,930</b>                 | <b>\$ 5,057</b>  | <b>\$ 25,408</b>                   | <b>\$ 48,435</b>                                  | <b>\$ 2,650,441</b> |

## Fair Value Measurements

GASB 72 establishes the framework for measuring investments at fair value and associated hierarchy that categorizes the valuation inputs. In accordance with GASB 72, the University has categorized its investments based on the priority of the inputs into a three-level fair value hierarchy.

Fair Value Hierarchy—The three levels of the fair value hierarchy are described below:

- **Level 1:** Inputs for quoted prices (unadjusted) for identical investments in active markets that the University can access at June 30.
- **Level 2:** Inputs—other than quoted prices included within Level 1—that are observable for an investment.
- **Level 3:** Inputs that are unobservable for an investment.

The hierarchy gives the highest priority to Level 1 inputs and lowest priority to Level 3 inputs. If a price for an identical investment is not observable, the University measures fair value using a valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

Per GASB 72, in instances where the University does not have a readily determinable fair value, the University is permitted to establish fair value by using the net asset value (NAV) per share (or its equivalent) if it is calculated in a manner that is consistent with FASB measurement principles for investment companies.

The following table summarizes investments according to the fair value hierarchy and NAV as of June 30, 2019:

|  | Fair Value Measurements Using |            |          |              |
|--|-------------------------------|------------|----------|--------------|
|  | Level 1                       | Level 2    | Level 3  | Total        |
| <b>Fixed income</b>                                  |                               |            |          |              |
| US agency  |                               | \$ 317,495 |          | \$ 317,495   |
| US Treasury  |                               | 274,137    |          | 274,137      |
| Mortgage-backed securities                           |                               | 79,569     |          | 79,569       |
| Return generating fixed income                       | \$ 61,294                     | 23,741     |          | 85,035       |
| Risk mitigating fixed income                         | 76,811                        |            |          | 76,811       |
| <b>Listed equity</b>                                 |                               |            |          |              |
| Global developed equity                              | 108,656                       |            |          | 108,656      |
| Diversifiers   | 30,342                        | 17,042     |          | 47,384       |
| <b>Private capital</b>                               |                               |            | \$ 8,402 | 8,402        |
| <b>Other</b>   | 3,219                         | 2,693      |          | 5,912        |
| <b>Total</b>   | 280,322                       | 714,677    | 8,402    | 1,003,401    |
| <b>Investments measured at net asset value (NAV)</b> |                               |            |          | 1,321,399    |
| <b>Total investments</b>                             |                               |            |          | \$ 2,324,800 |

The following table summarizes investments according to the fair value hierarchy and NAV as of June 30, 2018:

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

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

The following table summarizes NAV investments as of June 30, 2019:

|                   | <b>Net Asset Value</b> | <b>Unfunded Commitments</b> | <b>Redemption Frequency</b>  | <b>Redemption Notice Period</b>          |
|-------------------|------------------------|-----------------------------|--|--|
| Private capital   | \$ 520,771             | \$ 219,034                  | None   | None                                     |
| Fixed income      | 209,034                | 90,223                      | None, monthly, or annually   | None; 15 or 60 days                      |
| Global equity     | 208,645                |                             | Monthly  | 1 day, 2 days, or 30 days                |
| Hedge fund        | 115,828                |                             | None, semi-monthly, monthly, quarterly, semi-annually, or annually | None; 20, 30, 45, 60, 65, 75, or 90 days |
| Real estate       | 67,617                 | 27,151                      | None or quarterly  | None or 30 days                          |
| Natural resources | 57,300                 | 15,238                      | None   | None                                     |
| Other             | 142,204                | 18,542                      | None, daily, weekly, or quarterly                                  | None; 2 days, 5 days or 45 days          |
| <b>Total</b>      | <b>\$ 1,321,399</b>    | <b>\$ 370,188</b>           |  |  |

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

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

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

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

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

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

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

**Natural Resources**—This category includes investments in funds that invest in energy firms and forestry product firms. Distributions from each fund are received when the underlying investments in the funds

generate distributable cash flows or when the underlying investments are liquidated. It is estimated that the underlying assets of the fund would be liquidated over time.

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

## **Authorizations**

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

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

The Board's Investment of Reserves policy allows for up to 30 percent of the pool to be invested in the Consolidated Endowment Fund (CEF) or other illiquid fixed income securities. As of June 30, 2019 and 2018, the market value of the TIP assets invested in the CEF was \$144,106 and \$136,406, respectively. These assets are reported in the total cash and investments of the CEF. In addition, the Investment of Reserves policy guidelines include the following: average duration of four years or less for the entire pool and maximum duration of seven years for any individual holding; average credit quality of A1/A+ or better; no use of leverage; and credit ratings of investment grade defined as Baa3/BBB- or better by Moody's or Standard & Poor's. Retention of a lower rated security requires approval by the President or delegate with notification to the Board.

For June 30, 2019 and 2018, the Standard & Poor's credit rating for instruments held in TIP was AA-.

**Consolidated Endowment Fund (CEF)**—The CEF represents the pooling of funds from both public and private sources for which donor intent, law, or institutional decree determines the principal amount that must be invested in perpetuity or other specified time frames. The funds are invested to achieve an inflation-adjusted rate of return, after expenses are deducted, that exceeds the current payout rate of 4.5 percent of the average of the endowment's trailing month-end market values for the prior 60 months. The Board reserves the authority to approve asset allocation ranges for this pool. For fiscal years ended June 30, 2019 and 2018, \$60,508 and \$57,865, respectively, was made available for departmental spending.

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

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

The CEF is a diversified portfolio that utilizes external investment managers. The CEF assets are held in separately managed accounts, commingled pools, and limited partnerships (LP). Each of these fund structures has different risk and return characteristics and different liquidity characteristics. LP investments are privately negotiated transactions with very restricted liquidity. LPs are required to conduct an external audit annually in accordance with the FASB or the International Accounting Standards Board.

**Group Income Pool (GIP)—Long-Term Reserves**—The GIP represents assets invested for the benefit of various University units for long-term capital purposes. The investment objective of the GIP is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use. The GIP is invested in fixed-income funds through external investment managers. Additionally, up to 50 percent of the pool can be invested in the CEF. As of June 30, 2019 and 2018, the fair value of the GIP assets invested in the CEF was \$15,772 and \$15,255, respectively. These assets are reported in the total cash and investments of the CEF.

**Separately Invested Funds (SIF) and Other**—The SIF primarily represents investments in private equity companies that were acquired through University-developed technology, as well as investments in start-up companies through the University’s Discovery Capital Investment Program.

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

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

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

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

## **Investment Risks**

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

Interest rate risk is the risk that changes in interest rates will adversely affect the market value of the University’s fixed income investments. The Board’s Investment of Reserves policy affecting assets in the TIP

limits investment duration as a means of managing its exposure to market value losses arising from increasing interest rates.

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2019:

| <b>Fixed income securities</b>           | <b>Value</b>        | <b>Maturity</b> | <b>AA or better</b> | <b>BBB to A</b> | <b>BB or lower</b> | <b>Not rated</b> |
|--|---------------------|-----------------|---------------------|-----------------|--------------------|------------------|
| Cash & equivalents                       | \$ 231,439          |                 | 100                 |                 |                    |                  |
| Mortgage-backed securities               | 79,569              | 16.9            | 100                 |                 |                    |                  |
| US agency                                | 317,495             | 2.1             | 100                 |                 |                    |                  |
| US Treasury                              | 274,136             | 1.0             | 100                 |                 |                    |                  |
| Mutual funds                             | 274,753             | 5.8             | 58                  | 22              |                    | 20               |
| Total marketable fixed income securities | 1,177,392           | 3.3             |                     |                 |                    |                  |
| Private fixed income securities          | 177,458             |                 |                     |                 |                    |                  |
| <b>Total fixed income securities</b>     | <b>\$ 1,354,850</b> |                 |                     |                 |                    |                  |

The following table summarizes the TIP, CEF, GIP, and RUMINCO credit and interest rate exposures as of June 30, 2018:

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

**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, 2019, and 2018, all securities held in the pools were in compliance with policy guidelines.

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

The following table summarizes the University's exposure to foreign currency risk, stated in U.S. dollar equivalents, as of June 30, 2019 and 2018:

| Investment type | Foreign currency       | Market value |            | Market value |      |
|-----------------|------------------------|--------------|------------|--------------|------|
|                 |                        | 2019         | 2018       | 2019         | 2018 |
| Equity/Debt/RE  | Euro                   | \$ 52,739    | \$ 65,383  |              |      |
| Equity          | Japanese Yen           | 26,726       | 29,029     |              |      |
| Equity          | British Pound Sterling | 26,705       | 17,542     |              |      |
| Equity/Debt     | Hong Kong Dollar       | 6,176        | 2,910      |              |      |
| Equity          | Australian Dollar      | 6,097        | 4,531      |              |      |
| Equity          | Canadian Dollar        | 3,992        | 4,422      |              |      |
| Equity/Debt     | Swedish Krona          | 3,922        | 2,769      |              |      |
| Equity          | Israeli Shekel         | 2,176        | 980        |              |      |
| Equity          | Singapore Dollar       | 1,894        | 1,945      |              |      |
| Equity          | South Korean Won       | 1,470        | 836        |              |      |
| Equity          | Swiss Franc            | 1,371        | 1,783      |              |      |
| Equity          | New Taiwan Dollar      | 1,080        | 1,287      |              |      |
| Equity          | Norwegian Krone        | 926          | 2,082      |              |      |
| Equity          | New Zealand Dollar     | 757          | 670        |              |      |
| Equity          | Malaysian Ringgit      | 380          | 581        |              |      |
| Equity          | Danish Krone           | 369          | 357        |              |      |
| Equity          | South African Rand     | 276          | 448        |              |      |
| Equity/Debt     | Mexican Peso           | 215          | 623        |              |      |
| Equity/Debt     | Brazilian Real         | 187          | 372        |              |      |
| Equity          | Thailand Baht          | 130          | 356        |              |      |
| Equity/Debt     | Turkish Lira           | 117          | 118        |              |      |
| Equity          | Qatari Rial            | 115          | 191        |              |      |
| Equity          | Indonesian Rupiah      | 80           | 95         |              |      |
| Equity          | Polish Zloty           | 6            | 11         |              |      |
| Equity/Debt     | Philippine Peso        |              | 19         |              |      |
| Equity          | Czech Koruna           |              | 1          |              |      |
| Total           |                        | \$ 137,906   | \$ 139,341 |              |      |

## Financial Institution Credit Risk

**Deposits**—Depository credit risk is the risk that in the event of a bank failure, the University's deposits may not be recovered. Deposits held in noninterest-bearing transaction accounts are now aggregated with any interest-bearing deposits that are held in the same ownership category, and the FDIC insured amount is \$250 thousand. As of June 30, 2019, the University's bank balances of \$176,429 were uninsured and uncollateralized and as of June 30, 2018 the University's bank balances of \$316,095 were uninsured and uncollateralized.

**Investments**—Custodial credit risk is the risk that, in the event of failure of the counterparty, the University may not be able to recover the value of its investments held in custodial accounts. As of June 30, 2019 and 2018, the market value of investments held in the custodial accounts was \$738,392 and \$610,342 in TIP; \$134,483 and \$155,379 in CEF; and \$23,741 and \$22,689 in GIP, respectively.

### 3. Other Asset and Liability Information

Receivables, net, and student loans receivable, net as of June 30, 2019, consisted of the following:

|                                      | Current           | Noncurrent       | Total             |
|--------------------------------------|-------------------|------------------|-------------------|
| State and federal appropriations     | \$ 5,767          |                  | \$ 5,767          |
| Sponsored grants and contracts       | 102,691           |                  | 102,691           |
| Notes receivable                     | 1,278             | \$ 11,266        | 12,544            |
| Student receivables                  | 28,306            |                  | 28,306            |
| Trade receivables                    | 183,153           |                  | 183,153           |
| Accrued interest                     | 2,926             |                  | 2,926             |
| Other                                | 49,216            | 3                | 49,219            |
| Allowance for uncollectible accounts | (13,658)          |                  | (13,658)          |
| <b>Total receivables, net</b>        | <b>\$ 359,679</b> | <b>\$ 11,269</b> | <b>\$ 370,948</b> |
|                                      |                   |                  |                   |
| Student loans receivable             | 12,752            | 59,936           | 72,688            |
| Allowance for uncollectible accounts | (3,406)           | (599)            | (4,005)           |
| <b>Student loans receivable, net</b> | <b>\$ 9,346</b>   | <b>\$ 59,337</b> | <b>\$ 68,683</b>  |

Accrued liabilities as of June 30, 2019, consisted of the following:

|                                  | Current           | Noncurrent        | Total             |
|----------------------------------|-------------------|-------------------|-------------------|
| Trade liabilities                | \$ 20,184         |                   | \$ 20,184         |
| Compensation and benefits        | 212,469           | \$ 266,658        | 479,127           |
| Self-insurance reserves          | 48,321            | 11,236            | 59,557            |
| Accrued interest                 | 15,735            |                   | 15,735            |
| Refundable advances              |                   | 56,190            | 56,190            |
| Other                            | 31,209            | 13,312            | 44,521            |
| <b>Total accrued liabilities</b> | <b>\$ 327,918</b> | <b>\$ 347,396</b> | <b>\$ 675,314</b> |

Activity for certain liabilities consisted of the following as of June 30, 2019:

|                                      | Beginning<br>Balance | Additions  | Reductions     | Ending Balance | Current Portion |
|--------------------------------------|----------------------|------------|----------------|----------------|-----------------|
| Compensated balances                 | \$ 1,373,715         | \$ 230,577 | \$ (1,125,165) | \$ 479,127     | \$ 212,469      |
| Self-insurance reserves (see Note 9) | 55,336               | 308,041    | (303,820)      | 59,557         | 48,321          |
| Refundable advances                  | 54,744               | 1,446      |                | 56,190         |                 |
| Other                                | 43,080               | 44,521     | (43,080)       | 44,521         | 31,209          |

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

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

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

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

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

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

## 4. Capital Assets

Capital assets, net as of June 30, 2019, consisted of the following:

|   | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Transfers</b> | <b>Retirements &amp;<br/>Reductions</b> | <b>Ending Balance</b> |
|---|------------------------------|------------------|------------------|---|-----------------------|
| <b>Depreciable / amortizable capital assets</b>     |                              |                  |                  |   |                       |
| Buildings and improvements                          | \$ 4,411,200                 | \$ 40,052        | \$ 64,362        |   | \$ 4,515,614          |
| Leasehold improvements                              | 16,315                       |                  | 466              |   | 16,781                |
| Equipment   | 789,077                      | 49,890           | 1,200            | \$ (34,691)                             | 805,476               |
| Infrastructure                                      | 458,250                      |                  | 6,804            | (60)                                    | 464,994               |
| Library and reference books                         | 166,666                      | 4,436            |                  |   | 171,102               |
| Capitalized software (intangible asset)             | 179,637                      | 4,939            |                  |   | 184,576               |
| All other intangible assets                         | 6,903                        |                  |                  |   | 6,903                 |
| Total depreciable / amortizable capital assets      | 6,028,048                    | 99,317           | 72,832           | (34,751)                                | 6,165,446             |
| <b>Non-depreciable / amortizable capital assets</b> |                              |                  |                  |   |                       |
| Land  | 162,735                      | 24,904           |                  | (323)                                   | 187,316               |
| Direct financing lease - building                   | 158,170                      |                  |                  | (2,898)                                 | 155,272               |
| Museums and collections                             | 88,138                       | 3,407            | 5                | (16)                                    | 91,534                |
| Construction in progress                            | 105,616                      | 141,650          | (72,837)         |   | 174,429               |
| Permanent right-of-way easements (intangible asset) | 3                            | 2                |                  |   | 5                     |
| Total non-depreciable / amortizable capital assets  | 514,662                      | 169,963          | (72,832)         | (3,237)                                 | 608,556               |
| <b>Accumulated depreciation / amortization</b>      |                              |                  |                  |   |                       |
| Buildings and improvements                          | (2,155,015)                  | (129,173)        |                  |   | (2,284,188)           |
| Leasehold improvements                              | (13,205)                     | (729)            |                  |   | (13,934)              |
| Equipment   | (591,877)                    | (52,975)         |                  | 32,165                                  | (612,687)             |
| Infrastructure                                      | (307,747)                    | (14,349)         |                  | 56                                      | (322,040)             |
| Library and reference books                         | (132,711)                    | (4,923)          |                  |   | (137,634)             |
| Capitalized software (intangible asset)             | (150,338)                    | (11,892)         |                  |   | (162,230)             |
| All other intangible assets                         | (6,500)                      | (295)            |                  |   | (6,795)               |
| Total accumulated depreciation / amortization       | (3,357,393)                  | (214,336)        |                  | 32,221                                  | (3,539,508)           |
| Capital assets, net                                 | \$ 3,185,317                 | \$ 54,944        |                  | \$ (5,767)                              | \$ 3,234,494          |
| <b>Summary</b>                                      |                              |                  |                  |   |                       |
| Depreciable / amortizable capital assets            | \$ 6,028,048                 | \$ 99,317        | \$ 72,832        | \$ (34,751)                             | \$ 6,165,446          |
| Non-depreciable / amortizable capital assets        | 514,662                      | 169,963          | (72,832)         | (3,237)                                 | 608,556               |
| Total capital assets                                | 6,542,710                    | 269,280          |                  | (37,988)                                | 6,774,002             |
| Less accumulated depreciation / amortization        | (3,357,393)                  | (214,336)        |                  | 32,221                                  | (3,539,508)           |
| Capital assets, net                                 | \$ 3,185,317                 | \$ 54,944        |                  | \$ (5,767)                              | \$ 3,234,494          |

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

|   | <b>Beginning<br/>Balance</b> | <b>Additions</b> | <b>Transfers</b> | <b>Retirements &amp;<br/>Reductions</b> | <b>Ending Balance</b> |
|---|------------------------------|------------------|------------------|---|-----------------------|
| <b>Depreciable / amortizable capital assets</b>     |                              |                  |                  |   |                       |
| Buildings and improvements                          | \$ 4,056,558                 | \$ 11,996        | \$ 342,941       | \$ (295)                                | \$ 4,411,200          |
| Leasehold improvements                              | 15,795                       | 226              | 294              |   | 16,315                |
| Equipment   | 794,146                      | 47,702           | 1,045            | (53,816)                                | 789,077               |
| Infrastructure                                      | 459,970                      |                  | (1,720)          |   | 458,250               |
| Library and reference books                         | 163,166                      | 3,500            |                  |   | 166,666               |
| Capitalized software (intangible asset)             | 172,004                      | 7,633            |                  |   | 179,637               |
| All other intangible assets                         | 6,903                        |                  |                  |   | 6,903                 |
| Total depreciable / amortizable capital assets      | 5,668,542                    | 71,057           | 342,560          | (54,111)                                | 6,028,048             |
| <b>Non-depreciable / amortizable capital assets</b> |                              |                  |                  |   |                       |
| Land  | 154,416                      | 8,124            | 195              |   | 162,735               |
| Direct financing lease - building                   | 160,990                      |                  |                  | (2,820)                                 | 158,170               |
| Museums and collections                             | 85,063                       | 2,775            | 300              |   | 88,138                |
| Construction in progress                            | 258,090                      | 190,581          | (343,055)        |   | 105,616               |
| Permanent right-of-way easements (intangible asset) | 3                            |                  |                  |   | 3                     |
| Total non-depreciable / amortizable capital assets  | 658,562                      | 201,480          | (342,560)        | (2,820)                                 | 514,662               |
| <b>Accumulated depreciation / amortization</b>      |                              |                  |                  |   |                       |
| Buildings and improvements                          | (2,027,477)                  | (127,812)        | (17)             | 291                                     | (2,155,015)           |
| Leasehold improvements                              | (9,852)                      | (3,353)          |                  |   | (13,205)              |
| Equipment   | (584,121)                    | (57,914)         |                  | 50,158                                  | (591,877)             |
| Infrastructure                                      | (293,678)                    | (14,086)         | 17               |   | (307,747)             |
| Library and reference books                         | (126,958)                    | (5,753)          |                  |   | (132,711)             |
| Capitalized software (intangible asset)             | (137,887)                    | (12,451)         |                  |   | (150,338)             |
| All other intangible assets                         | (6,072)                      | (428)            |                  |   | (6,500)               |
| Total accumulated depreciation / amortization       | (3,186,045)                  | (221,797)        |                  | 50,449                                  | (3,357,393)           |
| Capital assets, net                                 | \$ 3,141,059                 | \$ 50,740        |                  | \$ (6,482)                              | \$ 3,185,317          |
| <b>Summary</b>                                      |                              |                  |                  |   |                       |
| Depreciable / amortizable capital assets            | \$ 5,668,542                 | \$ 71,057        | \$ 342,560       | \$ (54,111)                             | \$ 6,028,048          |
| Non-depreciable / amortizable capital assets        | 658,562                      | 201,480          | (342,560)        | (2,820)                                 | 514,662               |
| Total capital assets                                | 6,327,104                    | 272,537          |                  | (56,931)                                | 6,542,710             |
| Less accumulated depreciation / amortization        | (3,186,045)                  | (221,797)        |                  | 50,449                                  | (3,357,393)           |
| Capital assets, net                                 | \$ 3,141,059                 | \$ 50,740        |                  | \$ (6,482)                              | \$ 3,185,317          |

## 5. Long-Term Debt

Long-term debt as of June 30, 2019, consisted of the following:

|                                      | Original<br>issued<br>amount (par) | Fiscal year<br>issued | Coupon rates  | Due at<br>various<br>dates<br>through<br>fiscal year | FY 2019<br>beginning<br>balance | Additions         | Reductions        | FY 2019<br>ending<br>balance | Current<br>portion |
|--------------------------------------|------------------------------------|-----------------------|---------------|--|---------------------------------|-------------------|-------------------|------------------------------|--------------------|
| <b>General obligation bonds</b>      |                                    |                       |               |  |                                 |                   |                   |                              |                    |
| Series 2019A (tax-exempt)            | \$ 104,215                         | 2019                  | 5.00%         | 2044   | \$ 104,215                      |                   |                   | \$ 104,215                   | \$ 2,855           |
| Series 2019B (tax-exempt)            | 51,240                             | 2019                  | 5.00%         | 2030   | 51,240                          |                   |                   | 51,240                       | 1,525              |
| Series 2019C (taxable)               | 20,000                             | 2019                  | 2.466%-3.974% | 2044   | 20,000                          |                   |                   | 20,000                       | 470                |
| Series 2017A (tax-exempt)            | 117,095                            | 2018                  | 2.00%-5.00%   | 2043   | \$ 117,095                      | \$ 2,585          |                   | 114,510                      | 2,690              |
| Series 2017B (tax-exempt)            | 292,955                            | 2018                  | 2.00%-5.00%   | 2037   | 255,770                         | 33,300            |                   | 222,470                      | 21,515             |
| Series 2017C (taxable)               | 13,240                             | 2018                  | 1.375%-2.915% | 2029   | 12,045                          | 985               |                   | 11,060                       | 1,000              |
| Series 2016A (tax-exempt)            | 122,475                            | 2016                  | 3.00%-5.00%   | 2041   | 117,050                         | 2,900             |                   | 114,150                      | 3,045              |
| Series 2015B (taxable)               | 10,110                             | 2016                  | 0.799%-4.039% | 2032   | 9,055                           | 535               |                   | 8,520                        | 545                |
| Series 2014B (tax-exempt)            | 145,760                            | 2015                  | 2.00%-5.00%   | 2044   | 140,080                         | 2,980             |                   | 137,100                      | 3,040              |
| Series 2013D (taxable)               | 12,760                             | 2014                  | 0.60%-4.848%  | 2039   | 11,465                          | 365               |                   | 11,100                       | 370                |
| Series 2013B (taxable)               | 13,780                             | 2013                  | 2.60%-3.75%   | 2038   | 11,860                          | 430               |                   | 11,430                       | 445                |
| Series 2013A (tax-exempt)            | 73,570                             | 2013                  | 2.00%-5.00%   | 2038   | 63,915                          | 2,130             |                   | 61,785                       | 2,195              |
| Series 2011C (taxable)               | 19,335                             | 2012                  | 0.90%-4.56%   | 2037   | 16,310                          | 585               |                   | 15,725                       | 605                |
| Series 2010B (taxable)               | 41,720                             | 2011                  | 0.74%-5.02%   | 2036   | 32,800                          | 1,410             |                   | 31,390                       | 1,445              |
| Series 2010D (taxable)               | 27,200                             | 2010                  | 3.86%-5.768%  | 2030   | 23,980                          | 23,980            |                   |                              |                    |
| Series 2009D (taxable)               | 37,330                             | 2009                  | 6.30%         | 2029   | 37,330                          | 37,330            |                   |                              |                    |
| <b>Commercial paper notes</b>        |                                    |                       |               |  |                                 |                   |                   |                              |                    |
| Series A (tax-exempt)                | 159,100                            | 2006                  | 1.42%-1.44%   | 2020   | 68,000                          | 14,000            |                   | 54,000                       | 54,000             |
| Series B (tax-exempt)                | 61,000                             | 2007                  | 1.75%-1.85%   | 2020   | 27,900                          | 3,100             |                   | 24,800                       | 24,800             |
| Series C (tax-exempt)                | 70,000                             | 2008                  | 1.42%-1.45%   | 2020   | 33,000                          | 3,500             |                   | 29,500                       | 29,500             |
| Series D (tax-exempt)                | 25,000                             | 2010                  | 1.75%         | 2020   | 14,300                          | 2,172             |                   | 12,128                       | 12,128             |
| Series E (taxable)                   | 51,620                             | 2015                  | 2.380%-2.470% | 2020   | 47,220                          | 2,200             |                   | 45,020                       | 45,020             |
| Series F (tax-exempt)                | 50,100                             | 2017                  | 1.50%         | 2020   | 48,100                          | 2,000             |                   | 46,100                       | 46,100             |
| Series G (tax-exempt)                | 33,372                             | 2018                  | 1.42%         | 2020   | 32,000                          | 1,372             |                   | 33,372                       | 33,372             |
| Series H (tax-exempt)                | 57,627                             | 2019                  |               | 2020   |                                 | 57,627            | 57,627            |                              |                    |
| Series I (taxable)                   | 16,000                             | 2019                  | 2.47%         | 2020   |                                 | 16,000            | 11,000            | 5,000                        | 5,000              |
| Infrastructure development bonds     | 109,234                            | 1995-2006             | 3.55%-5.29%   | 2025   | 8,534                           | 2,392             |                   | 6,142                        | 2,095              |
| <b>Special purpose revenue bonds</b> |                                    |                       |               |  |                                 |                   |                   |                              |                    |
| Series 2015A (tax-exempt)            | 90,075                             | 2016                  | 2.00%-5.00%   | 2032   | 80,745                          | 4,995             |                   | 75,750                       | 5,245              |
| Series 2013C (tax-exempt)            | 35,395                             | 2014                  | 2.00%-5.00%   | 2039   | 32,440                          | 930               |                   | 31,510                       | 975                |
| Series 2011B (tax-exempt)            | 52,485                             | 2012                  | 3.00%-5.00%   | 2037   | 45,660                          | 1,490             |                   | 44,170                       | 1,565              |
| Series 2010A (tax-exempt)            | 111,400                            | 2011                  | 3.00%-5.00%   | 2036   | 93,555                          | 3,375             |                   | 90,180                       | 3,550              |
| Unamortized premiums and discounts   | 180,848                            | 2009-2018             |               | 2044   | 133,525                         | 30,460            | 6,847             | 157,138                      | 8,554              |
| Capital leases and other             |                                    | 1999-2019             | 2.98%-4.28%   | 2028   | 28,056                          | 22,420            | 6,499             | 43,977                       | 6,470              |
| <b>Total</b>                         | <b>\$ 2,206,041</b>                |                       |               |  | <b>\$ 1,541,790</b>             | <b>\$ 303,334</b> | <b>\$ 231,642</b> | <b>\$ 1,613,482</b>          | <b>\$ 320,119</b>  |

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

|   | Original<br>issued<br>amount (par) | Fiscal year<br>issued | Coupon rates  | Due at<br>various<br>dates<br>through<br>fiscal year | FY 2018<br>beginning<br>balance | Additions  | Reductions | FY 2018<br>ending<br>balance | Current<br>portion |
|---|------------------------------------|-----------------------|---------------|--|---------------------------------|------------|------------|------------------------------|--------------------|
| <b>General obligation bonds</b>         |                                    |                       |               |  |                                 |            |            |                              |                    |
| Series 2017A (tax-exempt)               | \$ 117,095                         | 2018                  | 2.00%-5.00%   | 2043   | \$ 117,095                      |            |            | \$ 117,095                   | \$ 2,585           |
| Series 2017B (tax-exempt)               | 292,955                            | 2018                  | 2.00%-5.00%   | 2037   | 292,955                         | \$ 37,185  | 255,770    | 255,770                      | 33,300             |
| Series 2017C (taxable)                  | 13,240                             | 2018                  | 1.375%-2.915% | 2029   | 13,240                          | 1,195      | 12,045     | 985                          |                    |
| Series 2016A (tax-exempt)               | 122,475                            | 2016                  | 3.00%-5.00%   | 2041   | \$ 119,850                      | 2,800      | 117,050    | 2,900                        |                    |
| Series 2015B (taxable)                  | 10,110                             | 2016                  | 0.799%-4.039% | 2032   | 9,585                           | 530        | 9,055      | 9,055                        | 535                |
| Series 2014B (tax-exempt)               | 145,760                            | 2015                  | 2.00%-5.00%   | 2044   | 142,975                         | 2,895      | 140,080    | 140,080                      | 2,980              |
| Series 2013D (taxable)                  | 12,760                             | 2014                  | 0.60%-4.848%  | 2039   | 11,825                          | 360        | 11,465     | 11,465                       | 365                |
| Series 2013B (taxable)                  | 13,780                             | 2013                  | 2.60%-3.75%   | 2038   | 12,275                          | 415        | 11,860     | 11,860                       | 430                |
| Series 2013A (tax-exempt)               | 73,570                             | 2013                  | 2.00%-5.00%   | 2038   | 65,985                          | 2,070      | 63,915     | 63,915                       | 2,130              |
| Series 2011D (tax-exempt)               | 53,610                             | 2012                  | 2.00%-5.00%   | 2037   | 47,400                          | 47,400     |            |                              |                    |
| Series 2011C (taxable)                  | 19,335                             | 2012                  | 0.90%-4.56%   | 2037   | 16,875                          | 565        | 16,310     | 16,310                       | 585                |
| Series 2011A (tax-exempt)               | 335,270                            | 2011                  | 2.00%-5.50%   | 2037   | 204,020                         | 204,020    |            |                              |                    |
| Series 2010B (taxable)                  | 41,720                             | 2011                  | 0.74%-5.02%   | 2036   | 34,185                          | 1,385      | 32,800     | 32,800                       | 1,410              |
| Series 2010D (taxable)                  | 27,200                             | 2010                  | 3.86%-5.768%  | 2030   | 25,610                          | 1,630      | 23,980     | 23,980                       | 1,675              |
| Series 2009D (taxable)                  | 37,330                             | 2009                  | 6.30%         | 2029   | 37,330                          |            |            | 37,330                       |                    |
| Series 2009C (tax-exempt)               | 44,625                             | 2009                  | 1.50%-5.00%   | 2022   | 20,380                          | 20,380     |            |                              |                    |
| Series 2009B (taxable)                  | 17,035                             | 2009                  | 2.50%-6.00%   | 2029   | 12,085                          | 12,085     |            |                              |                    |
| Series 2009A (tax-exempt)               | 41,000                             | 2009                  | 3.00%-5.25%   | 2034   | 32,505                          |            |            | 32,505                       |                    |
| <b>Commercial paper notes</b>           |                                    |                       |               |  |                                 |            |            |                              |                    |
| Series A (tax-exempt)                   | 159,100                            | 2006                  | 1.24%-1.65%   | 2019   | 80,000                          | 12,000     | 68,000     | 68,000                       |                    |
| Series B (tax-exempt)                   | 61,000                             | 2007                  | 1.22%-1.64%   | 2019   | 31,000                          | 3,100      | 27,900     | 27,900                       |                    |
| Series C (tax-exempt)                   | 70,000                             | 2008                  | 1.25%-1.54%   | 2019   | 36,500                          | 3,500      | 33,000     | 33,000                       |                    |
| Series D (tax-exempt)                   | 25,000                             | 2010                  | 1.38%         | 2019   | 15,300                          | 1,000      | 14,300     | 14,300                       |                    |
| Series E (taxable)                      | 51,620                             | 2015                  | 1.90%-2.04%   | 2019   | 49,420                          | 2,200      | 47,220     | 47,220                       |                    |
| Series F (tax-exempt)                   | 50,100                             | 2017                  | 1.18%-1.64%   | 2019   | 50,100                          | 2,000      | 48,100     | 48,100                       |                    |
| Series G (tax-exempt)                   | 32,000                             | 2018                  | 1.60%         | 2019   |                                 | 32,000     | 32,000     | 32,000                       | 32,000             |
| <b>Infrastructure development bonds</b> |                                    |                       |               |  |                                 |            |            |                              |                    |
| Special purpose revenue bonds           | 109,234                            | 1995-2006             | 3.55%-5.29%   | 2026   | 11,324                          | 2,790      | 8,534      | 8,534                        | 2,392              |
| Series 2015A (tax-exempt)               | 90,075                             | 2016                  | 2.00%-5.00%   | 2032   | 85,490                          | 4,745      | 80,745     | 80,745                       | 4,995              |
| Series 2013C (tax-exempt)               | 35,395                             | 2014                  | 2.00%-5.00%   | 2039   | 33,325                          | 885        | 32,440     | 32,440                       | 930                |
| Series 2011B (tax-exempt)               | 52,485                             | 2012                  | 3.00%-5.00%   | 2037   | 47,075                          | 1,415      | 45,660     | 45,660                       | 1,490              |
| Series 2010A (tax-exempt)               | 111,400                            | 2011                  | 3.00%-5.00%   | 2036   | 96,770                          | 3,215      | 93,555     | 93,555                       | 3,375              |
| Unamortized premiums and discounts      | 197,106                            | 2009-2018             |               | 2044   | 103,712                         | 67,300     | 37,487     | 133,525                      | 6,821              |
| Capital leases and other                |                                    | 1999-2018             | 2.78%-4.21%   | 2025   | 32,075                          | 2,718      | 6,737      | 28,056                       | 6,391              |
| Total                                   | \$ 2,463,385                       |                       |               |  | \$ 1,464,976                    | \$ 525,308 | \$ 448,494 | \$ 1,541,790                 | \$ 346,794         |

## General Obligation Bonds

On May 21, 2019, the University issued General Obligation (GO) Bonds, Series 2019A, GO Refunding Bonds, Series 2019B, and GO Taxable Bonds, Series 2019C.

The Series 2019A was issued in the par amount of \$104,215 at coupon rates of 5.0 percent with a premium of \$21,041. Proceeds of \$57,627 were used to refund the Commercial Paper (CP) Series H outstanding. The remaining proceeds are being used to finance costs of issuance and fund portions of capital projects. Capital projects being financed include the Pioneer Hall Project; the construction of the Health Science Education Center; renovation of existing space on the third and fourth floors of the Biological Sciences Center; and a new greenhouse addition to the Plant Growth Facilities for the College of Biological Sciences—all on the Twin

Cities campus—and the construction of the Chemistry and Advanced Materials Science Building located on the Duluth campus.

The Series 2019B was issued in the par amount of \$51,240 at coupon rates of 5.0 percent with a premium of \$9,419 to current refund and defease the University's GO Taxable Bonds Series 2009D and advance refund and defease the University's GO Taxable Bonds Series 2010D. A gain of \$519 was recognized on the transaction. Debt service savings totaling a net present value of \$6,806, calculated using a discount rate of 2.257 percent to the date of refunding, will be realized over the life of the bond series.

A portion of the net proceeds of the Series 2019B was used for costs of issuance and to redeem the outstanding Series 2009D bonds on June 1, 2019. The remaining portion of the net proceeds were deposited in an escrow account to pay the principal and interest due on the Series 2010D bonds and to pay the redemption price of the refunded bonds on its redemption date of February 1, 2020.

The Series 2019C was issued in the par amount of \$20,000 at coupon rates of 2.466 – 3.974 percent. Proceeds of \$11,000 were used to refund a portion of CP Series I outstanding with the remaining \$9,000 to be used for various capital projects and costs of issuance.

On September 28, 2017, the University issued GO Bonds, Series 2017A, GO Refunding Bonds, Series 2017B, and GO Taxable Refunding Bonds, Series 2017C.

The Series 2017A was issued in the par amount of \$117,095 at coupon rates of 2.0 – 5.0 percent with a premium of \$23,068. Proceeds are being used to finance various capital projects including a portion of the Athletes Village Project, construction of a new Track and Field Facility, construction of a new veterinary bio-containment facility, various renovations of existing space, and property acquisition and demolition activities.

The Series 2017B was issued in the par amount of \$292,955 at coupon rates of 2.0 – 5.0 percent with a premium of \$44,233 to advance refund and defease the University's GO Bonds Series 2009A, Series 2009C, Series 2011A and Series 2011D. A gain of \$4,548 was recognized on the transaction. Debt service savings totaling a net present value of \$27,048, calculated using a discount rate of 2.152 percent to the date of refunding, will be realized over the life of the bond series.

The Series 2017C was issued in the par amount of \$13,240 at coupon rates of 1.375 – 2.915 percent to advance refund and defease the University's GO Taxable Bonds Series 2009B. A loss of \$749 was recognized on the transaction. Debt service savings totaling a net present value of \$1,532, calculated using a discount rate of 2.564 percent to the date of refunding, will be realized over the life of the bond series.

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

The University had three series of Build America Bonds (BABs) – Direct Payment to Issuer outstanding, whereby the University expected to receive a 35 percent annual interest subsidy from the Federal Government for the life of the bonds. Due to the implementation of federal sequestration effective with the subsidy payment received beginning June 1, 2013, the subsidy payments received have been reduced by 6.2 percent and 6.6 percent in the federal fiscal years ending September 30, 2019 and 2018, respectively. Two of three series of BABs, Series 2009B and Series 2010D, as mentioned earlier, were defeased in May 2019. Interest payments for the remaining outstanding GO Taxable Bonds, Series 2010B are due August 1 and February 1.

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

### **Special Purpose Revenue Bonds**

The University issued Special Purpose Revenue Refunding Bonds, Series 2015A to defease the Special Purpose Revenue Bonds (SPRB), Series 2006 that were originally issued to fund a portion of the TCF Bank Stadium. The amended 2015 Minnesota Session Laws authorized the refunding of the Series 2006 bonds and also provided that upon refunding, annual payments from the State of Minnesota will be the maximum annual appropriation of \$10,250 to reimburse the University for the annual debt service on these bonds and on the Series 2015B GO Taxable Bonds, and for other University purposes.

The University issued three series of SPRBs for the State Supported Biomedical Science Research Facilities Funding Program in fiscal years 2011, 2012 and 2014. The proceeds were used to fund a portion of the costs of construction of one or more biomedical science research facilities. State of Minnesota legislation provides for an annual appropriation to reimburse the University for the annual debt service on these bonds.

### **Commercial Paper Notes**

On October 12, 2017, the Board of Regents authorized a revolving CP facility through which the University may issue tax-exempt and taxable CP Notes for short or long-term financing of capital projects, including the purchase of land and buildings, construction and remodeling projects, and the acquisition and installation of equipment. The aggregate principal amount outstanding under the facility shall not exceed \$400,000, including any previously issued Notes Series A – F still outstanding and additional Notes Series G – I to be issued.

On November 15, 2018, the University issued Taxable CP Notes Series I for \$16,000 at an initial rate of 2.47 percent for 89 days. Proceeds were used to pay for a portion of the Pioneer Hall project and for property acquisitions. Proceeds of GO Taxable Bonds Series 2019C were used to refund \$11,000 of Series I outstanding on May 24, 2019.

The University issued tax-exempt CP Notes Series H totaling \$57,627 during fiscal year 2019 with the first issuance occurring July 10, 2018 in the amount of \$20,000. Proceeds were used for construction costs of six specific capital projects. The total amount of Series H outstanding was refunded on May 24, 2019 with a portion of the proceeds of GO Bonds Series 2019A.

The first issuance of tax-exempt CP Notes Series G occurred on June 21, 2018 in the initial amount of \$32,000 at an annual rate of 1.6 percent with a maturity date of 61 days. Additional notes totaling \$1,372 were issued during fiscal year 2019. The proceeds were used to pay for a portion of the cost of the Athletes Village Project.

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

All of the University's outstanding CP is secured by the full faith and credit of the University and backed by the University's self-liquidity. Commercial paper is short-term in nature and classified as current liabilities in the consolidated financial statements.

## **Infrastructure Development Bond Obligations**

Pursuant to Minnesota law, the University is obligated to pay the State one third of the debt service of infrastructure development bonds issued by the State for University capital projects. Debt was issued for this purpose between July 1990 and October 2005. The total amount of outstanding debt issued by the State on behalf of the University was \$18,426 and \$25,602 as of June 30, 2019 and 2018, respectively, of which the University owes \$6,142 and \$8,534, respectively.

## **Capital Leases and Other Debt**

The University has five distinct capital leases. Four of the capital leases have payments being paid directly to the lessor and represent leases for building space. One of the five agreements is financed through third-party financing for purchase of fleet vehicles. As of June 30, 2019, the associated capital assets were \$76,352 for buildings and \$14,597 for vehicles with related accumulated depreciation of \$39,123 and \$7,850, respectively. The capital leases bear interest rates between 2.98 percent and 4.28 percent, with none of the leases extending beyond fiscal year 2028. The third-party financing agreement bears interest tied to the 30 Day LIBOR Index, which ranged from 3.78 – 4.28 percent during the fiscal year ended June 30, 2019. The LIBOR Index is an average yield of interbank offered rates for one-year US dollar denominated deposits.

## **Interest Rate Swaps**

The University's last remaining freestanding pay-fixed and receive-variable interest rate swap, which was considered an ineffective hedge, matured on August 28, 2017. There are no outstanding interest rate swaps as of fiscal year ended June 30, 2019.

## **Future Debt Service Requirements**

Interest payments on CP will vary depending on current market conditions from week to week. Using rates as of June 30, 2019, debt service requirements of the University's outstanding long-term debt obligations for the next five years and in subsequent five-year periods are as follows:

| Fiscal year ending June 30 | Bonds and obligations | Commercial paper notes | Capital lease and other | Total principal | Interest   | Total obligations |
|----------------------------|-----------------------|------------------------|-------------------------|-----------------|------------|-------------------|
| 2020                       | \$ 63,729             | \$ 249,920             | \$ 6,470                | \$ 320,119      | \$ 59,290  | \$ 379,409        |
| 2021                       | 64,766                |                        | 6,529                   | 71,295          | 52,355     | 123,650           |
| 2022                       | 67,153                |                        | 6,542                   | 73,695          | 46,093     | 119,788           |
| 2023                       | 58,256                |                        | 6,590                   | 64,846          | 46,714     | 111,560           |
| 2024                       | 60,375                |                        | 6,477                   | 66,852          | 44,093     | 110,945           |
| 2025-2029                  | 338,797               |                        | 11,369                  | 350,166         | 178,459    | 528,625           |
| 2030-2034                  | 302,291               |                        |                         | 302,291         | 109,324    | 411,615           |
| 2035-2039                  | 231,893               |                        |                         | 231,893         | 53,049     | 284,942           |
| 2040-2044                  | 131,519               |                        |                         | 131,519         | 14,562     | 146,081           |
| 2045-2050                  | 806                   |                        |                         | 806             |            | 806               |
|                            | \$ 1,319,585          | \$ 249,920             | \$ 43,977               | \$ 1,613,482    | \$ 603,939 | \$ 2,217,421      |

## Defeased Bonds

The University has defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt service payments on the old bonds or to immediately pay off existing debt. The defeased bonds are as follows:

| Associated bond issue    | Refunding date | Amount defased | Refunded amount | Amount outstanding on June 30, 2019 | Bond call date |
|--------------------------|----------------|----------------|-----------------|-------------------------------------|----------------|
| General obligation bonds |                |                |                 |                                     |                |
| Series 2010D             | 5/21/2019      | \$ 22,305      | \$ 22,305       | \$ 22,305                           | 2/1/2020       |
| Series 2011A             | 9/28/2017      | 204,020        | 204,020         | 150,300                             | 12/1/2020      |
| Series 2011D             | 9/28/2017      | 47,400         | 47,400          | 44,500                              | 12/1/2021      |
| Series 2009A             | 9/28/2017      | 32,505         | 32,505          |                                     | 4/1/2019       |
| Series 2009B             | 9/28/2017      | 12,085         | 12,085          |                                     | 4/1/2019       |
| Series 2009C             | 9/28/2017      | 20,380         | 20,380          |                                     | 6/1/2019       |
| Series 1996A             | 10/2/2005      | 159,000        | 159,000         | 68,000                              | 7/1/2021       |

The Series 2010D bonds were issued in February 2010 to finance various capital projects. They were defeased on May 21, 2019 with a recognized gain of \$519. The bonds will be redeemed on February 1, 2020.

The Series 2009A and 2009B, Series 2009C, and Series 2011D were issued in February 2009, May 2009 and December 2011, respectively, to finance various capital projects. The Series 2011A was issued in February 2011 to refund the Series 1999A, 2001C and 2003A, and to finance various capital projects. All five series were defeased on September 28, 2017 with a net recognized gain of \$3,799. The Series 2009A, 2009B, and 2009C were redeemed in fiscal year 2019 and are no longer outstanding.

The Series 1996A bonds were issued in January 1997 to provide funds for capital projects and to refund the GO Variable Rate Demand Bonds Series 1985F, 1985G, 1985H, and 1985I and the Commercial Paper Series 1991A and Series 1991B. As required under the terms of a put option exercised July 5, 2005, the proceeds from the issuance of Commercial Paper Notes, Series A in October 2005 were used to defease the remaining outstanding Series 1996A bonds. There was no gain or loss incurred with the defeasance of the Series 1996A bonds.

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

## Arbitrage

University general obligation and special purpose debt issuances issued after the Federal Tax Reform Act of 1986 are subject to federal arbitrage regulations. This results when earnings on the invested gross proceeds of a bond issue exceed the issuer's tax-exempt borrowing rates. The University continues to monitor and report any arbitrage in accordance with the Internal Revenue Code. The University had no arbitrage liability as of June 30, 2019 or 2018.

## **6. Pension Plans**

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

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

#### **Defined Benefit Plans**

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

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

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

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

##### **Federal Employees Retirement System (FERS)**

The FERS is a federal program that provides retirement benefits for 65 employees who work for the University. In general, all civilian service employees newly hired on or after January 1, 1984, are mandatorily covered by FERS. In addition, employees rehired after January 1, 1984, who had less than five years of prior civilian service as of December 31, 1986, are mandatorily covered by FERS. Using

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

### Funding Policy and Contribution Rates

|                                 | CSRS                   | CSRS Offset            | FERS                   |
|---------------------------------|------------------------|------------------------|------------------------|
| Statutory authority             |                        |                        |                        |
| United States code              | Title 5,<br>Chapter 83 | Title 5,<br>Chapter 83 | Title 5,<br>Chapter 84 |
| Required contribution rates (%) |                        |                        |                        |
| Active plan members             | 7.00%                  | 0.80%                  | 0.80%                  |
| University                      | 7.00%                  | 7.00%                  | 13.70%                 |
| Required contributions (\$)     |                        |                        |                        |
| Employee                        |                        |                        |                        |
| 2019                            | \$ 39                  | \$ 1                   | \$ 51                  |
| 2018                            | 73                     | 3                      | 52                     |
| 2017                            | 97                     | 3                      | 52                     |
| University                      |                        |                        |                        |
| 2019                            | \$ 39                  | \$ 10                  | \$ 882                 |
| 2018                            | 73                     | 18                     | 893                    |
| 2017                            | 97                     | 22                     | 892                    |
| Due to plan at June 30*         |                        |                        |                        |
| 2019                            | \$ 3                   | \$ 1                   | \$ 54                  |
| 2018                            | 6                      | 1                      | 54                     |
| 2017                            | 11                     | 1                      | 56                     |

\*Due to plan represents a liability the University has incurred for the employer and employee portion of contributions as of fiscal year end.

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

## **State of Minnesota Retirement Plans**

### **Basis of Accounting and Valuation of Investments**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Minnesota State Retirement System (MSRS) and the Public Employee Police and Fire Fund (PEPFF) and additions to/deductions from MSRS' and PEPFF's fiduciary net position have been determined on the same basis as they are reported by MSRS and PEPFF, respectively. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The PEPFF is administered by the Public Employees Retirement Association (PERA). PEPFF, in total, provides coverage to approximately 500 local governmental subdivisions within the state of Minnesota. The University's participation in PEPFF covers 70 active law enforcement staff. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions are established by state statute and can only be modified by state legislature. Each participant earns service credit for each month retirement deductions are withheld from the employee's salary. Retirement benefits are based on years and months of service. Normal retirement age is 55. The annuity formula for each member is 3.0 percent of average salary for each year of service in that plan. Benefits for members first hired after June 30, 2010, but before July 1, 2014 vest on a prorated basis from 50 percent after five years up to 100 percent after 10 years of credited service. Benefits for members first hired after June 30, 2014, vest on a pro-rated basis from 50 percent after 10 years up to 100 percent after 20 years of credited service. For members hired prior to July 1, 1989, a full annuity is available when the member's age plus years of service equal at least 90. Annual benefits increase by 1.0 percent each year to annuitants who have been receiving a benefit for at least 12 months (36 months for annuitants whose benefits were effective after June 1, 2014, and 2.5 percent if the plan is funded at least 90 percent for two consecutive years). Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service. Prior to 1981, these employees were not covered by a local relief association. The fund covers all those hired since 1980. A publicly available financial report, which includes financial statements and required supplementary information for this plan, can be obtained at <http://www.mnpera.org/> or by writing the Public Employees Retirement Association (PERA), 60 Empire Drive, Suite 200, St. Paul, MN 55103.

#### **State Employees Retirement Fund (SERF)**

The SERF is administered by the Minnesota State Retirement System (MSRS). SERF, in total, provides coverage to 24 employers within the state of Minnesota. The University's participation in SERF covers approximately 8,800 active Civil Service and non-faculty bargaining unit employees. Participation is mandatory and begins from the first day of employment. The plan provides retirement, survivor, and disability benefits. Benefit provisions are established by state statute and can only be modified by state legislature. Benefits are based on a member's age, years of allowable service, and the highest average salary for any sixty successive months of allowable service at termination of service. Benefit increases are provided to benefit recipients each January, and are related to the funded ratio of the plan. Annuitants receive benefit increases of 2.0 percent each year. When the fund reaches a 90 percent funded status for two consecutive years, annuitants will receive a 2.5 percent increase.

The annuity formula is the greater of a step rate with a flat rate reduction for each month of early retirement or a level rate (the higher step rate) with an actuarial reduction for early retirement. The applicable rates if the employee was first hired before July 1, 1989, are 1.2 percent for the first 10 years of allowable service and 1.7 percent for each subsequent year. The applicable rate if the employee is first hired after June 30, 1989, is 1.7 percent of average salary for each year of allowable service. Average salary is defined as the highest salary paid in a 60 successive month period. A publicly available financial report, which includes financial statements, required supplementary information, and detailed information about the plan's fiduciary net position, can be obtained at [www.msrs.state.mn.us/annual-reports-fy-2018](http://www.msrs.state.mn.us/annual-reports-fy-2018) or by writing to the MSRS, 60 Empire Drive, Suite 300, St. Paul, MN 55103.

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

### Funding Policy and Contribution Rates

|                                  | PEPFF    | SERF      |
|----------------------------------|----------|-----------|
| Statutory authority              |          |           |
| Minnesota chapter                | 353      | 352       |
| Required contribution rates (%)  |          |           |
| Active plan members              | 10.80%   | 5.50%     |
| University                       | 16.20%   | 5.50%     |
| Required contribution rates (\$) |          |           |
| University                       | \$ 1,140 | \$ 25,972 |
| Non-employer contributing entity | 54       |           |

Net pension liability amounts recorded in accordance with GASB 68 and GASB 71 within the University's financial statements are reflective of the respective plan's published financial statements and actuarial valuations as of June 30, 2018. The University's proportion of the respective plans' net pension liability was based on the University's contributions to the respective plans during the measurement period July 1, 2017 through June 30, 2018, relative to the total contributions from all participating employers, as well as on-behalf state contributions paid directly to PEPFF. As a result, contributions made to the respective plans during fiscal year 2019, are recorded as deferred outflows of resources per GASB 68 and GASB 71.

## Summary of Pension Amounts

|   | PEPFF    | SERF       | Total      |
|---|----------|------------|------------|
| Proportionate share of the net pension liability (\$) | \$ 6,367 | \$ 203,026 | \$ 209,393 |
| Proportionate share of the net pension liability (%)  |          |            |            |
| 2019  | 0.597%   | 14.648%    |            |
| 2018  | 0.589%   | 14.906%    |            |
| Deferred outflows of resources                        | 18,207   | 594,712    | 612,919    |
| Deferred inflows of resources                         | 20,934   | 980,605    | 1,001,539  |
| Net pension expense                                   | 223      | (264,079)  | (263,856)  |
| Non-operating grant revenue                           | 54       |            | 54         |

## Deferred Outflows of Resources

|   | PEPFF     | SERF       | Total      |
|---|-----------|------------|------------|
| Differences between expected and actual experience  | \$ 256    | \$ 5,730   | \$ 5,986   |
| Changes in actuarial assumptions  | 8,333     | 602,608    | 610,941    |
| Changes in proportion and differences between actual contributions and proportionate share of contributions | 8,478     | (39,598)   | (31,120)   |
| Contributions paid to plan subsequent to measurement date   | 1,140     | 25,972     | 27,112     |
| Total   | \$ 18,207 | \$ 594,712 | \$ 612,919 |

## Deferred Inflows of Resources

|  | PEPFF     | SERF       | Total        |
|--|-----------|------------|--------------|
| Differences between expected and actual experience           | \$ 1,586  | \$ 16,168  | \$ 17,754    |
| Changes in actuarial assumptions                             | 9,245     | 913,971    | 923,216      |
| Differences between projected and actual investment earnings | 1,283     | 49,501     | 50,784       |
| Changes in proportion and contributions allocated            | 8,820     | 965        | 9,785        |
| Total  | \$ 20,934 | \$ 980,605 | \$ 1,001,539 |

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

|   | Fiscal year | PEPFF      | SERF         | Total        |
|---|-------------|------------|--------------|--------------|
|   | 2020        | \$ 161     | \$ 15,058    | \$ 15,219    |
|   | 2021        | (472)      | 20,122       | 19,650       |
|   | 2022        | (956)      | (308,893)    | (309,849)    |
|   | 2023        | (2,598)    | (138,152)    | (140,750)    |
|   | 2024        | (2)        |              | (2)          |
| Net pension expense                                       |             | \$ (3,867) | \$ (411,865) | \$ (415,732) |
| Contributions paid to plan subsequent to measurement date |             | 1,140      | 25,972       | 27,112       |
| Net deferred outflows                                     |             | \$ (2,727) | \$ (385,893) | \$ (388,620) |

The University's net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date by the respective plans. The total pension liability was determined using the following actuarial methods and assumptions, applied to all periods included in the measurement.

### Actuarial Methods and Assumptions

|                                   | PEPFF*                            | SERF**                |             |
|-----------------------------------|-----------------------------------|-----------------------|-------------|
| Valuation date                    | 6/30/2018                         | 6/30/2018             |             |
| Actuarial cost method             | Entry age normal                  | Entry age normal      |             |
| Asset valuation method            | 5-year smoothed fair market value | Fair value            |             |
| Long-term expected rate of return | 7.50%                             | 7.50%                 |             |
| 20-year municipal bond rate       | 3.62%                             | ***                   | 3.62% ***   |
| Inflation                         | 2.50%                             |                       | 2.50%       |
| Salary increases                  | Service related rates             | Service related rates |             |
| Payroll growth                    | 3.25%                             |                       | 3.25%       |
| Experience study dates            | 2016                              | ****                  | 2008 - 2014 |

\* Mortality rates were based on RP-2014 Mortality Tables.

\*\*Mortality rates were based on RP-2014 Mortality Tables projected with mortality improvement scale MP-2015 from a base year of 2014.

\*\*\* Based on the Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2018.

\*\*\*\* Updated for economic assumptions in 2014.

As noted in the actuarial methods and assumptions, the long-term expected rate of return (discount rate) was used to measure the total pension liability as of June 30, 2018 of the respective plans. The actual selection of the rate was determined by looking at the asset class target allocations and long-term rate of return expectations from the State Board of Investments (SBI), along with other information, such as the Social Security Trustees Report, the U.S. Department of the Treasury yield curve rates, and historical observations of inflation statistics and investment returns.

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

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

#### SBI Asset Class

| Asset class          | Target allocation | Long-term expected<br>real rate of return<br>(geometric mean) |
|----------------------|-------------------|---|
| Domestic stocks      | 36%               | 5.10%   |
| International stocks | 17%               | 5.30%   |
| Private Markets      | 25%               | 5.90%   |
| Fixed Income         | 20%               | 0.75%   |
| Unallocated cash     | 2%                | 0.00%   |

GASB includes a specific requirement for the discount rate that is used for the purpose of the measurement of the SERF's and PEPFF's total pension liability. This rate considers the ability of SERF and PEPFF to meet benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses, and investment returns are projected into the future. SERF's and PEPFF's Fiduciary Net Position (assets) in future years can then be determined and compared to its obligation to make benefit payments in those years. As long as assets are projected to be on hand in the future, the long-term expected rate of return is used as the discount rate. In years where assets are not projected to be sufficient to meet benefit payments, the use of a "risk-free" municipal bond rate is required. The single discount rate is equivalent to applying these two rates (long-term expected rate of return and "risk-free" municipal bond rate) to the benefits that are projected to be paid during the different time periods.

The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in the statute. Based on that assumption, each of the pension plan's fiduciary net position at June 30, 2018, was projected to be available to make all projected future benefit payments of current and active employees. The long-term expected rate of return on pension plan investments of 7.5 percent was applied to all periods of projected benefit payments through June 30, 2018 for SERF and for all periods for PEPFF to determine the total pension liability.

Notable impacts affecting the University's total net pension liability reported for fiscal year ended June 30, 2019 compared to fiscal year ended June 30, 2018, involve changes to SERF's and PEPFF's actuarial valuation assumptions. Part of the assumption changes included changes to the single discount rates. For PEPFF, the single discount rate stayed at 7.5 percent, and for SERF, the single discount rate changed from 5.42 percent to 7.50 percent.

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.50 percent for SERF and 7.5 percent for PEPFF, as well as what the impact would be if the net pension liability were calculated using a discount rate that was 1.0 percentage point lower or 1.0 percentage point higher than these percentages.

## Discount Rate Sensitivity

| Pension plan               | 1.0% Decrease in<br>discount rate | Current<br>discount rate | 1.0% Increase in<br>discount rate |
|----------------------------|-----------------------------------|--------------------------|-----------------------------------|
| PEPFF                      |                                   |                          |                                   |
| Discount rate (%)          | 6.50%                             | 7.50%                    | 8.50%                             |
| Net pension liability (\$) | \$ 13,644                         | \$ 6,367                 | \$ 343                            |
| SERF                       |                                   |                          |                                   |
| Discount rate (%)          | 6.50%                             | 7.50%                    | 8.50%                             |
| Net pension liability (\$) | \$ 469,285                        | \$ 203,026               | \$ (17,975)                       |

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

## Single-employer plan

### Supplemental Benefits Plan (SBP)

The SBP is a closed plan sponsored by the University pursuant to the Board of Regents governing authority. This plan is in addition to the Faculty Retirement Plan (FRP), where faculty members employed prior to 1963 and female participants employed prior to July 1, 1982, may be eligible to receive additional benefits. SBP is designed to provide additional retirement benefits for certain groups of individuals who participated in the FRP, but who, due to plan design, have retirement income levels that are significantly lower than those of current participants. It accounts for 71 eligible participants. SBP is funded in an amount equal to or greater than the amount required under Minnesota Statute Chapter 356. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries. An internal faculty and staff retirement program report is prepared on a fiscal year basis. Finances related to this plan are immaterial to the overall University's financial statements. Questions regarding the SBP may be directed to Employee Benefits, 100 Donhowe Building, 319 15th Avenue S.E., Minneapolis, MN 55455.

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

## Defined Contribution Plans

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

### Faculty Retirement Plan (FRP)

The FRP is a mandatory retirement savings/investment plan contingent on meeting certain prescribed eligibility requirements. Pursuant to the University's Board of Regents governing authority, in compliance with Section 401(a) of the Internal Revenue Code, it authorizes the University to contribute

to the plan and governs the requirements of this plan. Eligibility requirements involve an employee appointment of at least nine months; employee appointments between 67 to 99 percent time are granted prorated participation. The plan is funded through employee pre-tax contributions and University contributions. Eligible academic employees with hire dates prior to January 2, 2012 contribute 2.5 percent of covered salary and the University contributes 13.0 percent. Eligible employees with a start date (or who were rehired) on or after January 2, 2012 contribute 5.5 percent of covered salary and the University contributes 10.0 percent. The FRP covers approximately 9,900 active faculty and professional and administrative (P&A) staff. This amount includes approximately 5,200 with hire dates on or after January 2, 2012.

### **University of Minnesota Optional Retirement Plan (ORP)**

The ORP is a voluntary retirement savings/investment plan covered under Section 403(b) of the Internal Revenue Code. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. The plan is funded mainly through employee pre-tax contributions. However, the University may make discretionary contributions for select staff based on employment contracts. Approximately 3,800 full- and part-time employees contribute to this plan.

### **University of Minnesota Section 457 Deferred Compensation Plan**

The 457 Deferred Compensation Plan is a voluntary retirement savings plan authorized under Section 457 of the Internal Revenue Code. This plan is funded exclusively through employee pre-tax contributions. All faculty and staff members who are paid on a continuous basis are eligible to participate in this plan. Approximately 1,100 full- and part-time employees contribute to this plan.

### **University of Minnesota 415(m) Retirement Plan**

The 415(m) Retirement Plan is a qualified excess benefit plan authorized under Section 415(m) of the Internal Revenue Code that is administered by the University of Minnesota. This plan is provided to select staff based on individual employment contracts negotiated. All contributions provided by the University are negotiated on an individual employee basis and are 100 percent vested and non-forfeitable at all times. There are no assets accumulated in a trust or trust-like arrangement for this plan. Seven University employees are part of this plan.

### **Contributions Made for Fiscal Year 2019**

|            | <b>FRP</b> | <b>ORP</b> | <b>457</b> | <b>415(m)</b> |
|------------|------------|------------|------------|---------------|
| Employee   | \$ 37,140  | \$ 42,707  | \$ 16,106  | N/A           |
| University | 113,743    | 267        | N/A        | \$ 613        |

**Due to plan at June 30\***

|            | <b>FRP</b> | <b>ORP</b> | <b>457</b> | <b>415(m)</b> |
|------------|------------|------------|------------|---------------|
| Employee   | \$ 2,197   | \$ 2,283   | \$ 878     | N/A           |
| University | 6,660      | N/A        | N/A        | N/A           |

\*Due to plan represents a liability the University has incurred for the employer and employee portion of contributions as of fiscal year end.

## **7. Related Organization**

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

## **8. Commitments and Contingencies**

Construction projects in progress, principally buildings, approximated \$174,429 on June 30, 2019. The estimated cost to complete these facilities is \$138,860, which is to be funded from plant fund assets and \$61,421 in appropriations available from the State of Minnesota as of June 30, 2019.

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, 2019, with a contract end date of May 2024. Under the agreement, the University must make minimum fixed payments for certain operating and maintenance costs, as well as contingent payments based upon performance requirements.

The University is obligated under various operating leases for the use of real property and equipment. Total operating lease expenditures for the years ended June 30, 2019 and 2018, were \$25,740 and \$26,583, respectively, of which \$22,032 and \$23,162 were for real property and \$3,708 and \$3,421 were for equipment, respectively.

The future steam plant and operating lease commitments as of June 30, 2019, for the next five years and in subsequent five-year periods are as follows:

|                            | Steam<br>plant  | Operating<br>leases | Total            |
|----------------------------|-----------------|---------------------|------------------|
| Fiscal year ending June 30 |                 |                     |                  |
| 2020                       | \$ 279          | \$ 13,660           | \$ 13,939        |
| 2021                       | 279             | 13,362              | 13,641           |
| 2022                       | 279             | 12,110              | 12,389           |
| 2023                       | 279             | 3,988               | 4,267            |
| 2024                       | 279             | 2,965               | 3,244            |
| 2025-2029                  |                 | 13,948              | 13,948           |
| 2030-2034                  |                 | 13,226              | 13,226           |
| 2035-2039                  |                 | 1,394               | 1,394            |
| 2040-2044                  |                 | 301                 | 301              |
| Total commitments          | <b>\$ 1,395</b> | <b>\$ 74,954</b>    | <b>\$ 76,349</b> |

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

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

## **9. Self-Insurance Programs**

The University is self-insured for medical malpractice, general liability, non-profit organization 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 based on a rate of return of 1.84 percent.

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

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

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

Medical coverage for eligible graduate assistants is a self-insured program. Under the graduate assistant medical plan, the University pays claims and establishes reserves. The program is administered by HealthPartners. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than \$400,000 in a single year. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded within the consolidated statements of net position. 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 \$375,000 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 within the consolidated statements of net position. The University also carries a student health plan for the Academic Health Center (AHC). The plan is self-insured and the health carrier is Blue Cross and Blue Shield of Minnesota. An estimated claims liability ensures that funds are available to cover claims up to the point where stop-loss coverage begins. The AHC Plan also offers self-insured Dental Plan preventive benefits at Boynton Health Service without a third-party administrator.

Medical coverage for eligible Medical Residents and Fellows is 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 within the consolidated statements of net position. The Medical & Resident group also offers a fully insured Dental Benefit Plan through Delta Dental.

Reported liabilities as of June 30, 2019, are shown below:

|                                | <b>Liability<br/>beginning<br/>of year</b> | <b>New<br/>claims</b> | <b>Claim<br/>payments</b> | <b>Other<br/>adjustments</b> | <b>Liability<br/>end<br/>of year</b> |
|--------------------------------|--|-----------------------|---------------------------|------------------------------|--------------------------------------|
| RUMINCO, Ltd.                  | \$ 9,374                                   | \$ 814                | \$ (2,719)                | \$ (223)                     | \$ 7,246                             |
| Workers' compensation          | 12,349                                     | 2,325                 | (2,325)                   | (299)                        | 12,050                               |
| UPlan medical                  | 22,509                                     | 262,146               | (262,549)                 | 5,431                        | 27,537                               |
| UPlan dental                   | 1,016                                      | 18,070                | (17,736)                  | (157)                        | 1,193                                |
| Graduate assistant health plan | 4,277                                      | 23,690                | (23,690)                  | 661                          | 4,938                                |
| Student health plan            | 5,108                                      |                       |                           | 992                          | 6,100                                |
| Medical residents & fellows    | 703  |                       |                           | (210)                        | 493                                  |

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

Reported liabilities as of June 30, 2018, are shown below:

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

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

## 10. Other Postemployment Benefits

### Description of Plan

The University administers the UPlan—a self-insured, single-employer, defined benefit healthcare plan. It is a partnership between the University and its employees to provide quality, cost-effective health benefits to employees, retirees, and their families. Pursuant to the University's Board of Regents governing authority, non-Medicare retirees and former employees can purchase medical and dental insurance coverage. The benefit provision process is initiated through the Benefits Advisory Committee (BAC). The BAC comprises

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

## **Contributions and Benefits Provided**

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

### **UPlan Membership Covered by Benefit Terms**

| <u>UPlan membership</u>   | June 30, 2019 | June 30, 2018 |
|---|---------------|---------------|
| Active plan members   | 19,742        | 19,331        |
| Inactive plan members or beneficiaries currently receiving benefits | 416           | 470           |
| Total   | 20,158        | 19,801        |

## **OPEB Liability**

The University's OPEB liability was measured and determined as of June 30, 2019 and June 30, 2018 in accordance with GASB 75.

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

|  | June 30, 2019 | June 30, 2018 |
|--|---------------|---------------|
| OPEB liability—Beginning of year                   | \$ 34,936     | \$ 32,461     |
| Changes in net OPEB liability:                     |               |               |
| Service cost                                       | 3,870         | 3,763         |
| Interest   | 1,361         | 1,202         |
| Differences between expected and actual experience | (344)         | 2,596         |
| Changes of actuarial assumptions or other inputs   | 2,879         | (120)         |
| Benefit payments                                   | (2,419)       | (4,966)       |
| Increase in OPEB liability                         | 5,347         | 2,475         |
| OPEB liability—End of year                         | \$ 40,283     | \$ 34,936     |

## **Actuarial Methods and Assumptions**

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

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

### Actuarial Methods and Assumptions

|                        |  |  |
|------------------------|--|--|
| Valuation date         | 6/30/2019  | 6/30/2018  |
| Actuarial cost method  | Entry age normal, level percent of pay                 | Entry age normal, level percent of pay                           |
| Asset valuation method | N/A  | N/A  |
| Discount rate          | 3.50%  | *  |
| Inflation              | 2.75%  | 2.75%  |
| Salary increases       | 4.00% average including inflation                      | 4.00% average including inflation                                |
| Mortality              | PubT-2010.H for Faculty and PubG-2010.H for all others | RP-2014 rolled back to 2006 and projected by modified 2016 scale |
| Experience applied     | FY2015 - FY2017  | FY2015 - FY2017  |

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

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

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

### Discount Rate Sensitivity

|                     | 1.0% Decrease<br>(2.5%) | Discount rate<br>(3.5%) | 1.0% Increase<br>(4.5%) |
|---------------------|-------------------------|-------------------------|-------------------------|
| OPEB liability (\$) | \$ 42,967               | \$ 40,283               | \$ 37,701               |

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

### Healthcare Cost Trend Rate Sensitivity

|                     | Healthcare cost                               |   |   |
|---------------------|---|---|---|
|                     | 1.0% Decrease<br>(6.0% decreasing<br>to 4.0%) | trend rates<br>(7.0% decreasing<br>to 5.0%) | 1.0% Increase<br>(8.0% decreasing<br>to 6.0%) |
| OPEB liability (\$) | \$ 35,543                                     | \$ 40,283                                   | \$ 45,897                                     |

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

In accordance with GASB 75, the University recorded \$7,214 and \$6,686 in OPEB expense for the fiscal years ended June 30, 2019 and June 30, 2018, respectively. In addition, the University reported the following deferred outflows of resources and deferred inflows of resources from the following sources:

### **Deferred Outflows of Resources and Deferred Inflows of Resources**

| <u>June 30, 2019</u>                               | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 2,072                             | \$ 416                              |
| Changes in assumptions                             | 3,243                                | 71                                  |
| <b>Total</b>                                       | <b>\$ 5,315</b>                      | <b>\$ 487</b>                       |

| <u>June 30, 2018</u>                               | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 3,314                             | \$ 165                              |
| Changes in assumptions                             | 1,223                                | 96                                  |
| <b>Total</b>                                       | <b>\$ 4,537</b>                      | <b>\$ 261</b>                       |

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

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

| Fiscal year                  | Total           |
|------------------------------|-----------------|
| 2020                         | \$ 1,739        |
| 2021                         | 903             |
| 2022                         | 700             |
| 2023                         | 262             |
| 2024                         | 262             |
| After 2024                   | 962             |
| <b>Net deferred outflows</b> | <b>\$ 4,828</b> |

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

## 11. Operating Expenses by Natural Classification

Operating expenses by natural classification for the year ended June 30, 2019, are summarized as follows:

| Function                           | Compensation<br>and benefits | Supplies<br>and services | Scholarships<br>and fellowships | Depreciation | Total        |
|------------------------------------|------------------------------|--------------------------|---------------------------------|--------------|--------------|
| Instruction                        | \$ 701,443                   | \$ 100,183               |                                 |              | \$ 801,626   |
| Research                           | 460,379                      | 260,235                  |                                 |              | 720,614      |
| Public service                     | 144,603                      | 99,131                   |                                 |              | 243,734      |
| Academic support                   | 302,268                      | 99,150                   |                                 |              | 401,418      |
| Student services                   | 94,048                       | 27,961                   |                                 |              | 122,009      |
| Institutional support              | 181,772                      | 56,883                   |                                 |              | 238,655      |
| Operation and maintenance of plant | 90,430                       | 178,409                  |                                 |              | 268,839      |
| Scholarships and fellowships       | 9,210                        | 2,375                    | \$ 52,939                       |              | 64,524       |
| Depreciation                       |                              |                          |                                 | \$ 214,336   | 214,336      |
| Auxiliary enterprises              | 99,642                       | 170,138                  |                                 |              | 269,780      |
| Other operating expense            |                              |                          | 1,070                           |              | 1,070        |
|                                    | \$ 2,083,795                 | \$ 994,465               | \$ 54,009                       | \$ 214,336   | \$ 3,346,605 |

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

| Function                           | Compensation<br>and benefits | Supplies<br>and services | Scholarships<br>and fellowships | Depreciation | Total        |
|------------------------------------|------------------------------|--------------------------|---------------------------------|--------------|--------------|
| Instruction                        | \$ 727,585                   | \$ 99,615                |                                 |              | \$ 827,200   |
| Research                           | 508,796                      | 259,341                  |                                 |              | 768,137      |
| Public service                     | 192,082                      | 93,169                   |                                 |              | 285,251      |
| Academic support                   | 371,087                      | 94,232                   |                                 |              | 465,319      |
| Student services                   | 115,880                      | 26,985                   |                                 |              | 142,865      |
| Institutional support              | 229,069                      | 85,700                   |                                 |              | 314,769      |
| Operation and maintenance of plant | 136,189                      | 174,485                  |                                 |              | 310,674      |
| Scholarships and fellowships       | 10,569                       | 2,931                    | \$ 51,089                       |              | 64,589       |
| Depreciation                       |                              |                          |                                 | \$ 221,797   | 221,797      |
| Auxiliary enterprises              | 131,045                      | 166,666                  |                                 |              | 297,711      |
| Other operating expense            |                              |                          | 120                             |              | 120          |
|                                    | \$ 2,422,302                 | \$ 1,003,124             | \$ 51,209                       | \$ 221,797   | \$ 3,698,432 |

## 12. Subsequent Events

On October 11, 2019, the University Board of Regents approved the purchase of real estate located at 2025 East River Parkway, Minneapolis, MN. The property includes 10.2 acres of land, improved with a 103,500 square foot, two-level building with out-patient clinics, inpatient hospital facility, and supporting uses, with a skyway connected to a 14,000 square foot, 10-room hotel and conference facility. The property also includes a 172-space attached parking ramp plus 28 additional parking spaces. The total purchase price for the property is \$22.5 million, with \$0.3 million in earnest money. Funding for the purchase and renovation of the property will be made possible through philanthropic donations.

The property is currently owned by Shriners Healthcare for Children, and is used as a pediatric specialty hospital facility. The University intends to renovate the building to accommodate programs jointly associated with programs focused on child and adolescent brain health run jointly by the Medical School and the College of Education and Human Development.

Closing on the property is contingent upon completion of a 160 day due diligence period ending on December 9, 2019, and the University and Shriners negotiating an agreement for the University to leaseback a portion of the facility to Shriners while their new facility is under construction. The period of the lease back would be until July 31, 2020, with an option for an additional five month period.

### **13. Component Units**

#### **Discretely Presented Component Units**

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

#### **Investments**

Investments in cash equivalents, corporate bonds, other fixed income securities, equity securities, hedge funds, natural resources, and Treasury inflation protected securities with readily determinable fair values are reported at fair value as set forth in Note 3 of the UMF's annual report (traditional structures). Investments held in alternative structures, except those reported as Level 3 in Note 3 of the UMF's annual report or are investments held at cost, investments held at the equity method or are consolidated, 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.

The UMF invests in LLCs and LLPs in which the UMF has a majority interest and control. As a result, these investments are consolidated within the financial statements.

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 net assets with and without restrictions are pooled, except for certain net assets that the board of trustees or donors have designated to be segregated and maintained separately.

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

The UMF investments as of June 30 are summarized as follows:

|  | 2019                      |                         |                     |
|--|---------------------------|-------------------------|---------------------|
|  | Traditional<br>structures | Alternate<br>structures | Total               |
| Cash and cash equivalents                          | \$ 796,593                |                         | \$ 796,593          |
| Fixed income                                       | 622,774                   | \$ 698,673              | 1,321,447           |
| Global equity                                      | 1,661                     | 15,939                  | 17,600              |
| Hedge funds  | 19,315                    | 4,297                   | 23,612              |
| Natural resources                                  | 8,352                     | 82,195                  | 90,547              |
| Treasury inflation protected securities (TIPS)     | 48,644                    |                         | 48,644              |
| Real estate  |                           | 52,504                  | 52,504              |
| Private equity                                     |                           | 582,447                 | 582,447             |
| Other investments                                  |                           | 6,122                   | 6,122               |
| <b>Subtotal</b>                                    | <b>1,497,339</b>          | <b>1,442,177</b>        | <b>2,939,516</b>    |
| Less charitable gift annuities reported separately |                           |                         | (33,718)            |
| <b>Total</b>                                       |                           |                         | <b>\$ 2,905,798</b> |

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

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

Investments held in traditional structures represent those held directly by the 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 the UMF's interests in the funds. At June 30, 2019 and 2018, the UMF has \$1,442,177 and \$1,393,178 respectively, of investments in alternative structures which are reported at net asset

value as a practical expedient, except those reported as Level 3, loans measured at cost and investment held in LLC in Note 3 of the UMF's annual report. Although a secondary market exists for these investments, it is not active and individual transactions are typically not observable. When transactions do occur in this limited secondary market, they may occur at discounts to the reported net asset value. It is, therefore, reasonably possible that if the UMF were to sell these investments in the secondary market, a buyer may require a discount to the reported net asset value, and the discount could be significant.

## Fair Value Measurements

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

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

- **Level 1:** Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization has the ability to access.
- **Level 2:** Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fixed income securities are generally traded in the over-the-counter market and are valued at a price that reflects fair value as quoted by dealers in these securities or by an independent pricing service. These prices are based on observable market data for the same or similar securities, including quoted prices in markets that are not active, or matrix pricing or other similar techniques that use observable market inputs, such as benchmark yields, expected prepayment speeds and volumes, and issuer ratings.
- **Level 3:** Inputs that are unobservable inputs for the asset or liability, including bankruptcy claims and auction rate securities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

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

The following tables summarize the UMF's financial assets and other liabilities measured at fair value on a recurring basis at June 30, 2019 and 2018:

|   | 2019                          |                   |                     |                |
|---|-------------------------------|-------------------|---------------------|----------------|
|   | Fair value measurements using |                   |                     |                |
|   | Level 1                       | Level 2           | Level 3             | Total          |
| <b>Investments</b>  |                               |                   |                     |                |
| <b>Fixed income</b>                                       |                               |                   |                     |                |
| Asset backed securities                                   | \$ 2,496                      |                   |                     | \$ 2,496       |
| Mortgages   | 3,094                         |                   |                     | 3,094          |
| Corporate bonds   | 20,222                        |                   |                     | 20,222         |
| Government  | 590,681                       |                   |                     | 590,681        |
| Large cap   | \$ 253                        |                   |                     | 253            |
| Other   |                               | 6,028             |                     | 6,028          |
| <b>Global equity</b>                                      |                               |                   |                     |                |
| Small cap   | 1,661                         |                   |                     | 1,661          |
| Large cap   |                               |                   |                     |                |
| <b>Hedge funds</b>  |                               |                   |                     |                |
| Long/short non-equity                                     | 19,315                        |                   | \$ 3,716            | 23,031         |
| <b>Natural resources</b>                                  |                               |                   |                     |                |
| <b>Treasury inflation protected securities (TIPS)</b>     |                               |                   |                     |                |
|   |                               | 48,644            |                     | 48,644         |
| <b>Total investments</b>                                  | <b>\$ 29,581</b>              | <b>\$ 671,165</b> | <b>\$ 3,716</b>     | <b>704,462</b> |
| Cash and cash equivalents                                 |                               |                   |                     | 796,593        |
| Investments measured at net asset value or its equivalent |                               |                   |                     | 1,044,152      |
| Investments held at cost                                  |                               |                   |                     | 23,720         |
| Investments at equity method                              |                               |                   |                     | 75,187         |
| Consolidated investments                                  |                               |                   |                     | 295,402        |
| <b>Total investments and cash</b>                         |                               |                   | <b>\$ 2,939,516</b> |                |
| Gift annuities not categorized above                      | \$ 1,146                      | \$ 588            |                     | \$ 1,734       |
| Beneficial interest in perpetual trusts                   | 8,757                         | 2,695             | \$ 52,642           | 64,094         |
| Assets held in charitable trusts                          | 19,952                        |                   |                     | 19,952         |
| Beneficial interest in trusts                             |                               |                   | 2,790               | 2,790          |
| UGC derivative financial instrument                       |                               | (1,547)           |                     | (1,547)        |

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

|   | 2018                          |            |           |              |  |  |  |
|---|-------------------------------|------------|-----------|--------------|--|--|--|
|   | Fair value measurements using |            |           |              |  |  |  |
|   | Level 1                       | Level 2    | Level 3   | Total        |  |  |  |
| <b>Investments</b>  |                               |            |           |              |  |  |  |
| <b>Fixed income</b>                                       |                               |            |           |              |  |  |  |
| Asset backed securities                                   | \$ 4,304                      |            |           | \$ 4,304     |  |  |  |
| Mortgages   | 3,673                         |            |           | 3,673        |  |  |  |
| Corporate bonds   | 27,381                        |            |           | 27,381       |  |  |  |
| Government  | 823,687                       |            |           | 823,687      |  |  |  |
| Other   | \$ 2,082                      | 2,337      |           | 4,419        |  |  |  |
| <b>Global equity</b>                                      |                               |            |           |              |  |  |  |
| Small cap   | 1,670                         |            |           | 1,670        |  |  |  |
| Large cap   | 208,308                       |            |           | 208,308      |  |  |  |
| <b>Hedge funds</b>  |                               |            |           |              |  |  |  |
| Long/short non-equity                                     | 18,990                        |            | \$ 1,831  | 20,821       |  |  |  |
| <b>Natural resources</b>                                  |                               |            |           |              |  |  |  |
| <b>Treasury inflation protected securities (TIPS)</b>     |                               |            |           |              |  |  |  |
|   |                               | 35,380     |           | 35,380       |  |  |  |
| Total investments   | \$ 242,016                    | \$ 896,762 | \$ 1,831  | 1,140,609    |  |  |  |
| Cash and cash equivalents                                 |                               |            |           | 151,796      |  |  |  |
| Investments measured at net asset value or its equivalent |                               |            |           | 1,093,644    |  |  |  |
| Investments held at cost                                  |                               |            |           | 24,477       |  |  |  |
| Investments at equity method                              |                               |            |           | 80,235       |  |  |  |
| Consolidated investments                                  |                               |            |           | 192,991      |  |  |  |
| Total investments and cash                                |                               |            |           | \$ 2,683,752 |  |  |  |
| Gift annuities not categorized above                      | \$ 1,146                      | \$ 583     |           | \$ 1,729     |  |  |  |
| Beneficial interest in perpetual trusts                   | 8,398                         | 2,867      | \$ 52,178 | 63,443       |  |  |  |
| Assets held in charitable trusts                          | 20,001                        |            |           | 20,001       |  |  |  |
| Beneficial interest in trusts                             |                               |            | 3,003     | 3,003        |  |  |  |
| UGC derivative financial instrument                       |                               | (1,136)    |           | (1,136)      |  |  |  |

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

|                       | Net realized<br>and<br>unrealized<br>gain (loss) |                      |           |          |            |          |  |  | Ending<br>balance at<br>June 30, 2019 |  |
|-----------------------|--|----------------------|-----------|----------|------------|----------|--|--|---------------------------------------|--|
|                       | Beginning<br>balance at<br>July 1, 2018          | Investment<br>income | Purchases | Sales    |            |          |  |  |                                       |  |
| <b>Fixed income</b>   |  |                      |           |          |            |          |  |  |                                       |  |
| Other                 |  |                      |           |          |            |          |  |  |                                       |  |
| <b>Hedge funds</b>    |  |                      |           |          |            |          |  |  |                                       |  |
| Long/short non-equity | \$ 1,831   | \$ 117               | \$ 36     | \$ 3,234 | \$ (1,502) | \$ 3,716 |  |  |                                       |  |
|                       | \$ 1,831   | \$ 117               | \$ 36     | \$ 3,234 | \$ (1,502) | \$ 3,716 |  |  |                                       |  |

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

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:

|   | Change in<br>carrying<br>value<br>of trusts |          |          | Ending<br>balance at<br>June 30, 2019 |  |
|---|---|----------|----------|---------------------------------------|--|
|   | Beginning<br>balance at<br>July 1, 2018     |          |          |                                       |  |
| Beneficial interest in trusts           | \$ 3,003                                    | \$ (213) | \$ 2,790 |                                       |  |
| Beneficial interest in perpetual trusts | 52,178                                      | 464      | 52,642   |                                       |  |

|   | Change in<br>carrying<br>value<br>of trusts |          |          | Ending<br>balance at<br>June 30, 2018 |  |
|---|---|----------|----------|---------------------------------------|--|
|   | Beginning<br>balance at<br>July 1, 2017     |          |          |                                       |  |
| Beneficial interest in trusts           | \$ 3,313                                    | \$ (310) | \$ 3,003 |                                       |  |
| Beneficial interest in perpetual trusts | 53,672                                      | (1,494)  | 52,178   |                                       |  |

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

|                                | 2019                |                      |  |                          |
|--------------------------------|---------------------|----------------------|--|--------------------------|
|                                | Net asset value     | Unfunded commitments | Redemption frequency                               | Redemption notice period |
| <b>Alternative investments</b> |                     |                      |  |                          |
| Fixed income                   | \$ 318,165          | \$ 192,154           | None or quarterly<br>None or daily to<br>quarterly | None or 60 days          |
| Global equity                  | 2,139               |                      | None or monthly to<br>quarterly                    | None or 0-60 days        |
| Hedge funds                    | 580                 |                      | None   | None or 0-90 days        |
| Natural resources              | 82,195              | 11,536               | None   | None                     |
| Real estate                    | 52,504              | 24,294               | None   | None                     |
| Private equity                 | 582,447             | 143,729              | None   | None                     |
| Other investments              | 6,122               |                      | None   | None                     |
| Total                          | <u>\$ 1,044,152</u> | <u>\$ 371,713</u>    |  |                          |

|                                | 2018                |                      |  |                          |
|--------------------------------|---------------------|----------------------|--|--------------------------|
|                                | Net asset value     | Unfunded commitments | Redemption frequency                               | Redemption notice period |
| <b>Alternative investments</b> |                     |                      |  |                          |
| Fixed income                   | \$ 255,667          | \$ 176,524           | None or quarterly<br>None or daily to<br>quarterly | None or 60 days          |
| Global equity                  | 42,045              |                      | None or monthly to<br>quarterly                    | None or 0-60 days        |
| Hedge funds                    | 76,928              |                      | None   | None or 0-90 days        |
| Natural resources              | 108,848             | 20,154               | None   | None                     |
| Real estate                    | 56,929              | 30,567               | None   | None                     |
| Private equity                 | 546,969             | 166,336              | None   | None                     |
| Other investments              | 6,258               |                      | None   | None                     |
| Total                          | <u>\$ 1,093,644</u> | <u>\$ 393,581</u>    |  |                          |

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

### Investment Commitments

As of June 30, 2019, the UMF also had unfunded commitments for investments held at cost of \$20,580, unfunded commitments for investments at equity method of \$51,086, and unfunded commitments for consolidated investments of \$42,692.

In addition to the unfunded commitments noted above, the UMF has entered into investment commitments of \$74,404 since June 30, 2019, which are expected to be paid within one year.

## Net Assets

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the UMF and changes therein are classified into the following categories:

- **Net Assets with Donor Restrictions:** Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.
- **Net Assets without Donor Restrictions:** Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a board-designated endowment.

## Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30 are restricted for the following purposes:

Gifts and other unexpended revenues and gains available for:

|  | 2019                | 2018              |
|--|---------------------|-------------------|
| Capital improvement/facilities             | \$ 133,711          | \$ 130,839        |
| Faculty and staff support                  | 20,668              | 22,079            |
| Scholarships and fellowships               | 151,745             | 144,110           |
| Lectureships, professorships, and chairs   | 45,703              | 45,492            |
| Program support                            | 486,034             | 408,654           |
| Research and outreach/community engagement | 160,655             | 170,031           |
| Trusts                                     | 7,401               | 7,571             |
| Other                                      | 8,768               | 8,231             |
| <b>Subtotal</b>                            | <b>\$ 1,014,685</b> | <b>\$ 937,007</b> |

Endowments:

Original donor-restricted gift amount and amounts required to be maintained in perpetuity:

Restricted by donors for:

|  |                     |                     |
|--|---------------------|---------------------|
| Capital improvement/facilities             | \$ 9,934            | \$ 9,852            |
| Faculty and staff support                  | 33,377              | 29,598              |
| Scholarships and fellowships               | 588,188             | 551,010             |
| Lectureships, professorships, and chairs   | 418,321             | 405,811             |
| Program support                            | 95,702              | 91,253              |
| Research and outreach/community engagement | 73,823              | 70,063              |
| Trusts                                     | 15,635              | 14,969              |
| Other                                      | 3,072               | 581                 |
| <b>Subtotal</b>                            | <b>\$ 1,238,052</b> | <b>\$ 1,173,137</b> |

Subject to foundation endowment spending policy and appropriation:

|  |                     |                     |
|--|---------------------|---------------------|
| Capital improvement/facilities             | \$ 9,953            | \$ 9,476            |
| Faculty and staff support                  | 14,292              | 12,987              |
| Scholarships and fellowships               | 172,652             | 152,925             |
| Lectureships, professorships, and chairs   | 229,015             | 211,169             |
| Program support                            | 53,995              | 58,854              |
| Research and outreach/community engagement | 24,017              | 18,732              |
| Other                                      | 2,917               | 2,693               |
| <b>Subtotal</b>                            | <b>506,841</b>      | <b>466,836</b>      |
| <b>Total endowments</b>                    | <b>\$ 1,744,893</b> | <b>\$ 1,639,973</b> |

Not subject to spending policy or appropriation:

|   |                     |                     |
|---|---------------------|---------------------|
| Capital improvement/facilities                  | \$ 68               | \$ 153              |
| Scholarships and fellowships                    | 1,570               | 2,701               |
| Program support                                 | 6,953               | 7,147               |
| Research and outreach                           | 1,035               | 1,262               |
| Trusts  | 54,466              | 54,157              |
| Other   | 1,091               | 3,157               |
| <b>Subtotal</b>                                 | <b>65,183</b>       | <b>68,577</b>       |
| <b>Total net assets with donor restrictions</b> | <b>\$ 2,824,761</b> | <b>\$ 2,645,557</b> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the years ended June 30:

Net assets released for purpose:

|  | 2019              | 2018              |
|--|-------------------|-------------------|
| Capital improvement/facilities                           | \$ 21,970         | \$ 26,125         |
| Faculty and staff support                                | 4,582             | 4,813             |
| Scholarships and fellowships                             | 50,304            | 46,362            |
| Lectureships, professorships, and chairs                 | 28,609            | 29,554            |
| Program support  | 84,795            | 77,351            |
| Research and outreach/community engagement               | 62,666            | 42,243            |
| Other  | 505               | 710               |
| <b>Total net assets released from donor restrictions</b> | <b>\$ 253,431</b> | <b>\$ 227,158</b> |

## Blended Component Units

Condensed statements of net position; statements of revenues, expenses, and changes in net position; and statements of cash flows for fiscal years ended June 30, 2019 and 2018 for RUMINCO, Ltd, are as follows:

| <b>Condensed statements of net position</b>       | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|
| Current assets                                    | \$ 158      | \$ 106      |
| Noncurrent assets                                 | 51,538      | 48,386      |
| Total assets                                      | 51,696      | 48,492      |
| Deferred outflows of resources                    |             |             |
| Total assets & deferred outflows of resources     | 51,696      | 48,492      |
|   |             |             |
| Current liabilities                               | 1,401       | 2,822       |
| Noncurrent liabilities                            | 2,112       | 2,520       |
| Total liabilities                                 | 3,513       | 5,342       |
| Deferred inflows of resources                     |             |             |
| Total liabilities & deferred inflows of resources | 3,513       | 5,342       |
|   |             |             |
| Unrestricted net position                         | \$ 48,183   | \$ 43,150   |

| <b>Condensed statements of revenues, expenses, and changes in net position</b> | <b>2019</b> | <b>2018</b> |
|--|-------------|-------------|
| Operating revenues:  |             |             |
| Net underwriting income  | \$ 3,515    | \$ 895      |
| Operating expenses   | 1,501       | 1,459       |
| Operating income (loss)  | 2,014       | (564)       |
| Nonoperating revenues:   |             |             |
| Investment income, net   | 3,019       | 3,212       |
| Increase in net position   | 5,033       | 2,648       |
| Net position at beginning of year  | 43,150      | 40,502      |
| Net position at end of year  | \$ 48,183   | \$ 43,150   |

| <b>Condensed statements of cash flows</b> | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|
| Net cash provided (used) by:              |             |             |
| Operating activities                      | \$ 687      | \$ 226      |
| Investing activities                      | (640)       | (237)       |
| Net increase (decrease) in cash           | 47          | (11)        |
| Cash at beginning of year                 | 49          | 60          |
| Cash at end of year                       | \$ 96       | \$ 49       |

Condensed statement of net position; statement of revenues, expenses, and changes in net position; and statement of cash flows for fiscal year ended June 30, 2019 for 2515 University Ave SE, LLC (University Village), is as follows:

| <b>Condensed statement of net position</b>        | <b>2019</b> |
|---|-------------|
| Current assets:                                   |             |
| Cash and cash equivalents                         | \$ 185      |
| Accounts and other receivables                    | 530         |
| Noncurrent assets:                                |             |
| Capital assets, net                               | 42,757      |
| Total assets                                      | 43,472      |
| Deferred outflows of resources                    |             |
| Total assets & deferred outflows of resources     | 43,472      |
|   |             |
| Current liabilities                               | 569         |
| Noncurrent liabilities                            | 43,500      |
| Total liabilities                                 | 44,069      |
| Deferred inflows of resources                     |             |
| Total liabilities & deferred inflows of resources | 44,069      |
|   |             |
| Unrestricted net position                         | \$ (597)    |

| <b>Condensed statement of revenues, expenses, and changes in net position</b> | <b>2019</b> |
|---|-------------|
| Operating revenues:   |             |
| Rental income   | \$ 1,069    |
| Other revenue   | 20          |
| Operating expenses:   |             |
| General operating expenses  | 852         |
| Depreciation expense  | 250         |
| Operating loss  | (13)        |
| Nonoperating expenses   | 584         |
| Decrease in net position  | (597)       |
| Net position at beginning of year   |             |
| Net position at end of year   | \$ (597)    |

| <b>Condensed statement of cash flows</b> | <b>2019</b> |
|--|-------------|
| Net cash provided (used) by:             |             |
| Operating activities                     | \$ 783      |
| Capital and related financing activities | (598)       |
| Net increase in cash                     | 185         |
| Cash at beginning of year                |             |
| Cash at end of year                      | \$ 185      |

### **Required Supplementary Information (Unaudited)**

- 89 Schedule of Employer's Contributions for Other Postemployment Benefits
- 89 Schedule of Changes in Total Other Postemployment Benefits Liability
- 90 Schedules of the Employer's Share of Net Pension Liability
- 91 Schedules of Employer's Contributions for Pension

**Required Supplementary Information (RSI) (Unaudited)**  
 Years ended June 30, 2019 and 2018 (in thousands)

**Other Postemployment Benefits (OPEB)**

Schedule of Employer's Contributions

| Year Ended<br>June 30 | OPEB Liability<br>(a) | University's Covered-<br>Employee Payroll<br>(b) | Contributions as a<br>Percentage of Covered-<br>Employee Payroll<br>(c) = a / b |      |
|-----------------------|-----------------------|--|---|------|
|                       |                       |  | 2019  | 2018 |
| 2019                  | \$ 40,283             | \$ 1,427,948                                     | 2.82%   |      |
| 2018                  | 34,936                | 1,439,621  | 2.43%   |      |
| 2017                  | 32,461                | 1,384,251  | 2.35%   |      |
| 2016                  | 32,447                | 1,350,645  | 2.40%   |      |

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

Schedule of Changes in Total OPEB Liability

| Total OPEB Liability at June 30                    | 2019      | 2018      | 2017      | 2016      |
|--|-----------|-----------|-----------|-----------|
| Service cost                                       | \$ 3,870  | \$ 3,763  | \$ 3,446  | \$ 2,961  |
| Interest   | 1,361     | 1,202     | 973       | 1,150     |
| Differences between expected and actual experience | (344)     | 2,596     | (281)     | 3,374     |
| Changes of actuarial assumptions or other inputs   | 2,879     | (120)     | 1,023     | 1,674     |
| Benefit payments                                   | (2,419)   | (4,966)   | (5,147)   | (5,794)   |
| Increase in OPEB liability                         | 5,347     | 2,475     | 14        | 3,365     |
| Total OPEB liability—beginning                     | 34,936    | 32,461    | 32,447    | 29,082    |
| Total OPEB liability—ending                        | \$ 40,283 | \$ 34,936 | \$ 32,461 | \$ 32,447 |

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

*Additional information is provided in Note 10.*

**Notes to Required Supplementary Information**

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

## Schedules of the Employer's Share of Net Pension Liability

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

| Actuarial valuation date | University's Proportion of the Net Pension Liability (%) | University's Proportionate Share of the Net Pension Liability (\$) | University's Covered-Employee Payroll | University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll<br>(d) = (b)/(c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability<br>(e) |
|--------------------------|--|--|---------------------------------------|---|---|
| 6/30/2018                | 0.597%   | \$ 6,367   | \$ 6,295                              | 101.144%  | 88.84%  |
| 6/30/2017                | 0.589%   | 7,952  | 6,046                                 | 131.525%  | 85.43%  |
| 6/30/2016                | 0.604%   | 24,240   | 5,818                                 | 416.638%  | 63.88%  |
| 6/30/2015                | 0.613%   | 6,965  | 5,781                                 | 120.481%  | 86.61%  |
| 6/30/2014                | 0.608%   | 6,567  | 5,255                                 | 124.967%  | 87.07%  |

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

### State Employees Retirement Fund (SERF)\*

| Actuarial valuation date | University's Proportion of the Net Pension Liability (%) | University's Proportionate Share of the Net Pension Liability (\$) | University's Covered-Employee Payroll | University's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll<br>(d) = (b)/(c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability<br>(e) |
|--------------------------|--|--|---------------------------------------|---|---|
| 6/30/2018                | 14.648%  | \$ 203,027   | \$ 437,428                            | 46.414%   | 90.56%  |
| 6/30/2017                | 14.906%  | 1,105,713  | 428,771                               | 257.880%  | 62.73%  |
| 6/30/2016                | 15.200%  | 1,884,630  | 417,703                               | 451.189%  | 47.51%  |
| 6/30/2015                | 15.424%  | 237,436  | 451,306                               | 52.611%   | 88.32%  |
| 6/30/2014                | 16.031%  | 259,954  | 410,364                               | 63.347%   | 87.64%  |

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

### Notes to Required Supplementary Information

In the fiscal years ended June 30, 2019 and 2018, there were changes in actuarial assumptions for both PEPFF and SERF that affected the measurement of the total pension liability since the prior actuarial valuation. Part of the assumption changes included changes to the single discount rates. For PEPFF, the single discount rate remained unchanged at 7.5 percent in fiscal year 2019, and changed from 5.6 percent to 7.5 percent in fiscal year 2018. For SERF, the single discount rate changed from 5.42 percent to 7.50 percent in fiscal year 2019, and from 4.17 percent to 5.42 percent in fiscal year 2018. Refer to Note 6 for additional information related to PEPFF and SERF.

## Pensions

### Schedules of Employer's Contributions – Last 10 Years

Public Employee Police and Fire Fund (PEPFF)\*

| Year Ended<br>June 30 | Contractually Required<br>Contribution<br>(a) | Contributions in Relation<br>to the Contractually<br>Required Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(c) = a - b | University's Covered-<br>Employee Payroll<br>(d) | Contributions as a<br>Percentage of Covered-<br>Employee Payroll<br>(e) = b / d |
|-----------------------|---|---|---|--|---|
| 2018                  | \$ 1,020                                      | \$ 1,020  |   | \$ 6,295   | 16.20%  |
| 2017                  | 979   | 979   |   | 6,046  | 16.20%  |
| 2016                  | 943   | 943   |   | 5,818  | 16.20%  |
| 2015                  | 885   | 885   |   | 5,781  | 15.30%  |
| 2014                  | 804   | 804   |   | 5,255  | 15.30%  |

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

State Employees Retirement Fund (SERF)\*

| Year Ended<br>June 30 | Contractually Required<br>Contribution<br>(a) | Contributions in Relation<br>to the Contractually<br>Required Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(c) = a - b | University's Covered-<br>Employee Payroll<br>(d) | Contributions as a<br>Percentage of Covered-<br>Employee Payroll<br>(e) = b / d |
|-----------------------|---|---|---|--|---|
| 2018                  | \$ 24,059                                     | \$ 24,059   |   | \$ 437,428                                       | 5.50%   |
| 2017                  | 23,582  | 23,582  |   | 428,771  | 5.50%   |
| 2016                  | 22,974  | 22,974  |   | 417,703  | 5.50%   |
| 2015                  | 22,565  | 22,565  |   | 451,306  | 5.00%   |
| 2014                  | 20,518  | 20,518  |   | 410,364  | 5.00%   |

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

Civil Service Retirement System (CSRS)

| Year Ended<br>June 30 | Contractually Required<br>Contribution<br>(a) | Contributions in Relation<br>to the Contractually<br>Required Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(c) = a - b | University's Covered-<br>Employee Payroll<br>(d) | Contributions as a<br>Percentage of Covered-<br>Employee Payroll<br>(e) = b / d |
|-----------------------|---|---|---|--|---|
| 2019                  | \$ 39   | \$ 39   |   | \$ 557   | 7.00%   |
| 2018                  | 73  | 73  |   | 1,043  | 7.00%   |
| 2017                  | 97  | 97  |   | 1,386  | 7.00%   |
| 2016                  | 109   | 109   |   | 1,557  | 7.00%   |
| 2015                  | 139   | 139   |   | 1,986  | 7.00%   |
| 2014                  | 152   | 152   |   | 2,171  | 7.00%   |
| 2013                  | 172   | 172   |   | 2,457  | 7.00%   |
| 2012                  | 226   | 226   |   | 3,229  | 7.00%   |
| 2011                  | 271   | 271   |   | 3,871  | 7.00%   |
| 2010                  | 281   | 281   |   | 4,014  | 7.00%   |
| 2009                  | 296   | 296   |   | 4,229  | 7.00%   |

Additional information is provided in Note 6.

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

| Year Ended<br>June 30 | Contractually Required<br>Contribution<br>(a) | Contributions in Relation<br>to the Contractually<br>Required Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(c) = a - b | University's Covered-<br>Employee Payroll<br>(d) | Contributions as a<br>Percentage of Covered-<br>Employee Payroll<br>(e) = b / d |
|-----------------------|---|---|---|--|---|
| 2019                  | \$ 10   | \$ 10   |   | \$ 143   | 7.00%   |
| 2018                  | 18  | 18  |   | 257  | 7.00%   |
| 2017                  | 22  | 22  |   | 314  | 7.00%   |
| 2016                  | 30  | 30  |   | 429  | 7.00%   |
| 2015                  | 35  | 35  |   | 500  | 7.00%   |
| 2014                  | 35  | 35  |   | 411  | 8.51%   |
| 2013                  | 34  | 34  |   | 400  | 8.51%   |
| 2012                  | 33  | 33  |   | 388  | 8.51%   |
| 2011                  | 32  | 32  |   | 376  | 8.51%   |
| 2010                  | 34  | 34  |   | 400  | 8.51%   |
| 2009                  | 37  | 37  |   | 435  | 8.51%   |

## Federal Employees Retirement System (FERS)

| Year Ended<br>June 30 | Contractually Required<br>Contribution<br>(a) | Contributions in Relation<br>to the Contractually<br>Required Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(c) = a - b | University's Covered-<br>Employee Payroll<br>(d) | Contributions as a<br>Percentage of Covered-<br>Employee Payroll<br>(e) = b / d |
|-----------------------|---|---|---|--|---|
| 2019                  | \$ 881  | \$ 881  |   | \$ 6,431   | 13.70%  |
| 2018                  | 893   | 893   |   | 6,518  | 13.70%  |
| 2017                  | 892   | 892   |   | 6,511  | 13.70%  |
| 2016                  | 1,232   | 1,232   |   | 8,993  | 13.70%  |
| 2015                  | 938   | 938   |   | 7,106  | 13.20%  |
| 2014                  | 894   | 894   |   | 7,513  | 11.90%  |
| 2013                  | 878   | 878   |   | 7,378  | 11.90%  |
| 2012                  | 900   | 900   |   | 7,563  | 11.90%  |
| 2011                  | 957   | 957   |   | 8,545  | 11.20%  |
| 2010                  | 974   | 974   |   | 8,696  | 11.20%  |
| 2009                  | 1,031   | 1,031   |   | 9,205  | 11.20%  |

*Additional information is provided in Note 6.*