NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010 and 2009

Note 1—Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: The University of Michigan (the "University") is a state-supported institution with an enrollment of approximately 58,000 students on its three campuses. The financial statements include the individual schools, colleges and departments, the University of Michigan Hospitals and Health Centers, Michigan Health Corporation (a wholly-owned corporation created to pursue joint venture and managed care initiatives) and Veritas Insurance Corporation (a wholly-owned captive insurance company). While the University is a political subdivision of the state of Michigan, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity.* The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the GASB, and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments.* The statements of net assets, revenues, expenses and changes in net assets, and of cash flows are reported on a consolidated basis, and all intra-university transactions are eliminated as required by GASB. The University has the option of applying pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. The University has elected not to apply any FASB pronouncements issued after the applicable date.

During 2010, the University adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which requires all derivative instruments within its scope to be reported at fair value in the statement of net assets. For hedging derivative instruments that are effective in significantly reducing an identified financial risk, as defined by the Statement, the corresponding change in fair value is deferred and included in the statement of net assets. For all other derivative instruments, changes in fair value are reported as net investment income (loss). GASB Statement No. 53 also requires additional disclosures about the University's derivative instruments.

The provisions of GASB Statement No. 53 have been applied to the years presented. The following table summarizes the effect of this implementation on the statements of net assets, revenues, expenses and changes in net assets as of June 30, 2009 and July 1, 2008 and for the year ended June 30, 2009:

(in thousands)	As Previously Reported	Implementation of GASB Statement No. 53	As Adjusted
June 30, 2009:			
Noncurrent assets:			
Prepaid expenses and other assets	$ 21,425	$ 23,299	$ 44,724
Noncurrent liabilities:			
Deposits of affiliates and other	$ 113,393	$ 25,637	$ 139,030
Net assets	$ 8,666,975	$ (2,338)	$ 8,664,637
July 1, 2008:			
Net assets	$ 10,754,674	$ (1,635)	$ 10,753,039
Year ended, June 30, 2009:			
Net investment income (loss)	$ (1,851,234)	$ (703)	$ (1,851,937)

The financial statements of all controlled organizations are included in the University's financial statements; affiliated organizations that are not controlled by, and not dependent on the University, such as booster and alumni organizations, are not included.

Net assets are categorized as:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- **Restricted:**
  Nonexpendable—Net assets subject to externally imposed stipulations that they be maintained permanently. Such net assets include the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable—Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net assets include net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.
- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net assets are designated for academic and research programs and initiatives, and capital programs.

Summary of Significant Accounting Policies: The accompanying financial statements have been prepared on the accrual basis. The University reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

For purposes of the statement of cash flows, the University considers all highly liquid investments purchased with a maturity of three months or less, to be cash equivalents. Cash equivalents representing assets of the University's endowment, life income and other investments are included in noncurrent investments as these funds are not used for operating purposes.

Investments are reported in four categories in the statement of net assets. Investments reported as endowment, life income and other investments are those funds invested in portfolios that are considered by management to be of a long duration. Investments for student loan and capital activities are those funds that are intended to be used for these specific activities. All other investments are reported as operating investments.

Investments in marketable securities are carried at fair value, as established by the major securities markets. Purchases and sales of investments are accounted for on the trade date basis. Investment income is recorded on the accrual basis. Realized and unrealized gains and losses are reported in investment income.

Investments in nonmarketable limited partnerships are generally carried at fair value provided by the management of the investment partnerships as of March 31, 2010 and 2009, as adjusted by cash receipts, cash disbursements, and securities distributions through June 30, 2010 and 2009, in order to provide an approximation of fair value at June 30. In addition, the carrying amount of these investments is adjusted for June 30 information from management of the investment partnerships when necessary to provide a reasonable estimate of fair value as of June 30, 2010 and 2009. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

Derivative instruments, such as financial futures, forward foreign exchange contracts and interest rate swaps held in investment portfolios, are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. To facilitate trading in financial futures, the University is required to post cash or securities to satisfy margin requirements of the exchange where such futures contracts are listed. The University monitors the required amount of cash and securities on deposit for financial futures transactions and withdraws or deposits cash or securities as necessary.

Investments denominated in foreign currencies are translated into U.S. dollar equivalents using year-end spot foreign currency exchange rates. Purchases and sales of investments denominated in foreign currencies and related income are translated at spot exchange rates on the transaction dates.

Accounts receivable are recorded net of a provision for uncollectible accounts receivable. The provision is based on management's judgment of potential uncollectible amounts, which includes such factors as historical experience and type of receivable.

The University receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Permanent endowment pledges do not meet eligibility requirements, as defined by GASB, and are not recorded as assets until the related gift is received.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on these amounts are computed using risk-free interest rates applicable to the years in which the promises are made, commensurate with expected future payments. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history, type of gift and nature of fundraising.

Capital assets are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets, which primarily range from four to forty years. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research or public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Deferred revenue consists primarily of cash received from grant and contract sponsors which has not yet been earned under the terms of the agreement. Deferred revenue also includes amounts received in advance of an event, such as student tuition and advance ticket sales related to future fiscal years.

Deposits of affiliates and others represent cash and invested funds held by the University as a result of agency relationships with various groups. Noncurrent deposits of affiliates represent the portion of endowment and similar funds held by the University on behalf of others.

The University holds life income funds for beneficiaries of the pooled income fund, charitable remainder trusts and the gift annuity program. These funds generally pay lifetime income to beneficiaries, after which the principal is made available to the University in accordance with donor intentions. All life income fund assets, including those held in trust, are recorded at fair value. The present value of estimated future payments due to life income beneficiaries is recorded as a liability.

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate amounts for endowment spending rule distributions as is considered prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Net appreciation of permanent endowment funds, which totalled $924,000,000 and $808,000,000 at June 30, 2010 and 2009, respectively, is recorded in restricted expendable net assets. The University's endowment spending rule is further discussed in Note 2.

Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Patient care revenues are reported net of contractual allowances. Patient care services are primarily provided through the University of Michigan Health System, which includes the Hospitals and Health Centers, the Faculty Group Practice of the University of Michigan Medical School, and the Michigan Health Corporation. Patient care services are also provided through University Health Services, which provides health care services to students, faculty and staff, and Dental Faculty Associates, which provides dental care services performed by faculty dentists.

Other auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics, parking, student unions, university press and student publications.

The University's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's expenses are from exchange transactions. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB, including state appropriations, state fiscal stabilization funds, federal Pell grants, gifts and investment income.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The most significant areas that require management estimates relate to self-insurance and benefits obligations.

Reclassifications: In accordance with the GASB *Comprehensive Implementation Guide,* federal Pell grant revenue, which totalled $24,929,000 in 2009, has been reclassified from operating revenues to nonoperating revenues within the statement of revenues, expenses and changes in net assets and from cash flows from operating activities to cash flows from noncapital financing activities within the statement of cash flows.

Note 2—Cash and Investments

Summary: The University maintains centralized management for substantially all of its cash and investments. With the exception of certain insurance reserves, charitable remainder trusts and other funds whose terms require separate management, the University invests its cash reserves and relatively short duration assets in the University Investment Pool. The University also collectively invests substantially all of the assets of its endowment funds (University Endowment Fund) together with a portion of its insurance and benefits reserves, charitable remainder trusts and gift annuity program in the Long Term Portfolio.

The University Investment Pool is invested together with the University's insurance and other benefit reserves in the Daily and Monthly Portfolios, which are principally invested in investment-grade money market securities, U.S. government and other fixed income securities and absolute return strategies. Balances in the University Investment Pool are primarily for operating expenses and capital projects. The funding for capital projects remains in current operating investments until amounts for specific capital projects are transferred for capital activities.

The longer investment horizon of the Long Term Portfolio allows for an equity-oriented strategy to achieve higher expected returns over time, and permits the use of less liquid alternative investments, providing for equity diversification beyond the stock markets. The Long Term Portfolio includes investments in domestic and non-U.S. stocks and bonds, commingled funds and limited partnerships consisting of venture capital, private equity, real estate, energy and absolute return strategies.

Authorizations: The University's investment policies are governed and authorized by University Bylaws and the Board of Regents. The approved asset allocation policy for the Long Term Portfolio sets a general target of 80 percent equities and 20 percent fixed income securities, within a permitted range of 65 to 90 percent for equities and 10 to 35 percent for fixed income securities. Since diversification is a fundamental risk management strategy, the Long Term Portfolio is broadly diversified within these general categories.

Distributions are made from the University Endowment Fund to the University entities that benefit from the endowment fund. The endowment spending rule provides for an annual distribution of 5 percent of the one-quarter lagged seven year moving average fair value of fund units, limited to 5.3 percent of the current fair value to protect endowment principal in the event of a prolonged market downturn. Distributions are also made from the University Investment Pool to University entities based on the 90-day U.S. Treasury Bill rate. The University's costs to administer and grow the University Endowment Fund and University Investment Pool are funded by investment returns.

Cash and Cash Equivalents: Cash and cash equivalents, which totalled $194,645,000 and $358,373,000 at June 30, 2010 and 2009, respectively, represent short-term money market investments in mutual funds, overnight collective funds managed by the University's custodian or short-term highly liquid investments registered as securities and held by the University or its agents in the University's name. Of its cash and cash equivalents, the University had actual cash balances in its bank accounts in excess of Federal Deposit Insurance Corporation limits in the amount of $6,838,000 and $10,788,000 at June 30, 2010 and 2009, respectively. The University does not require deposits to be collateralized or insured.

Investments: At June 30, 2010 and 2009, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

(in thousands)	2010	2009
Cash equivalents, noncurrent	$ 122,474	$ 181,564
Fixed income securities	1,372,232	1,261,477
Commingled funds	1,379,961	1,399,681
Equity securities	819,510	781,719
Nonmarketable alternative investments	4,024,853	3,502,987
Other investments	6,775	6,125
	$ 7,725,805	$ 7,133,553

The University's investment strategy, like that of most other institutions, incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures, and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net assets and is not represented by the contract or notional amounts of the instruments.

Fixed income securities have inherent financial risks, including credit risk and interest rate risk. Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations ("NSROs"), such as Moody's and Standard & Poor's, assign credit ratings to security issues and issuers that indicate a measure of potential credit risk to investors. Fixed income securities considered investment grade are those rated at least Baa by Moody's and BBB by Standard & Poor's. To manage credit risk, the University specifies minimum average and minimum absolute quality NSRO ratings for securities held pursuant to its management agreements.

The University minimizes concentration of credit risk, the risk of a large loss attributed to the magnitude of the investment in a single issuer of fixed income securities, by diversifying its fixed income issues and issuers and holding U.S. Treasury securities which are considered to have minimal credit risk. The University also manages this risk at the account level by limiting each fixed income manager's holding of any non-U.S. government issuer to 5 percent of the value of the investment account.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other imbedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income securities was 5.1 years at June 30, 2010, compared to 5.0 years at June 30, 2009. The University manages the effective duration of its fixed income securities at the account level, where fixed income managers generally may not deviate from the duration of their respective benchmarks by more than 25 percent.

The composition of fixed income securities at June 30, 2010 and 2009, along with credit quality and effective duration measures, is summarized as follows:

2010

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 92,098				$ 92,098	8.7
U.S. Treasury inflation protected	309,926				309,926	3.7
U.S. government agency	178,941				178,941	0.6
Mortgage backed		$ 24,696	$ 19,930		44,626	1.8
Asset backed		40,857	3,676		44,533	2.9
Corporate and other		680,954	13,235	$ 7,919	702,108	6.8
	$ 580,965	$ 746,507	$ 36,841	$ 7,919	$ 1,372,232	5.1

2009

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 67,363				$ 67,363	6.3
U.S. Treasury inflation protected	306,078				306,078	2.3
U.S. government agency	88,632				88,632	1.3
Mortgage backed		$ 40,293	$ 9,979		50,272	1.5
Asset backed		54,384	3,296		57,680	4.6
Corporate and other		641,313	39,693	$ 10,446	691,452	6.8
	$ 462,073	$ 735,990	$ 52,968	$ 10,446	$ 1,261,477	5.0

Of the University's fixed income securities, 97 percent and 95 percent were rated investment grade or better at June 30, 2010 and 2009, with 48 percent and 44 percent of these securities rated AAA/Aaa or better at June 30, 2010 and 2009, respectively.

Commingled (pooled) funds include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships, and corporate structures which are generally unrated and unregulated. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy. These investments are structured to limit the University's risk exposure to the amount of invested capital. The composition of commingled funds at June 30, 2010 and 2009 is summarized as follows:

(in thousands)	2010	2009
Absolute return	$ 638,864	$ 743,480
U.S. equities	77,588	67,080
Non-U.S./global equities	585,743	525,366
U.S. fixed income	8,607	8,452
Other	69,159	55,303
	$ 1,379,961	$ 1,399,681

Commingled funds have liquidity (redemption) provisions, which enable the University to make full or partial withdrawals with notice, subject to restrictions on the timing and amount. Of the University's commingled funds at June 30, 2010 and 2009, approximately 80 percent are redeemable within one year, with 51 percent and 44 percent, respectively, redeemable within 90 days.

The remaining amounts are redeemable beyond one year, with redemption of certain funds dependent on disposition of the underlying assets.

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is no active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner. The composition of these partnerships at June 30, 2010 and 2009 is summarized as follows:

(in thousands)	2010	2009
Private equity	$ 1,085,145	$ 849,529
Real estate	811,071	836,498
Absolute return	828,903	737,541
Energy	705,180	613,981
Venture capital	594,554	465,438
	$ 4,024,853	$ 3,502,987

The University's limited partnership investments are diversified in terms of manager selection and industry and geographic focus. At June 30, 2010 and 2009, no individual partnership investment represented 5 percent or more of total investments. The University's committed but unpaid obligation to these limited partnerships is further discussed in Note 13.

Absolute return strategies in the commingled funds and nonmarketable alternative investments classifications include long/short stock programs, merger arbitrage, intra-capital structure arbitrage and distressed debt investments. The goal of absolute return strategies is to provide, in aggregate, a return that is consistently positive and uncorrelated with the overall market.

The University participates in non-U.S. developed and emerging markets through commingled funds invested in non-U.S./global equities and absolute return strategies. Although substantially all of these funds are reported in U.S. dollars, both price changes of the underlying securities in local markets and changes to the value of local currencies relative to the U.S. dollar are embedded in the investment returns. In addition, a portion of the University's equity securities and nonmarketable alternative investments are denominated in foreign currencies, which must be settled in local (non-U.S.) currencies. Forward foreign currency contracts are typically used to manage the risk related to fluctuations in currency exchange rates between the time of purchase or sale and the actual settlement of foreign securities. Various investment managers acting for the University also use forward foreign exchange contracts in risk-based transactions to carry out their portfolio strategies.

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The value of the University's non-U.S. dollar holdings net of outstanding forward foreign exchange contracts at June 30, 2010 and 2009 totalled $906,342,000, or 12 percent of total investments, and $793,952,000, or 11 percent of total investments, respectively, and is summarized as follows:

(in thousands)	2010	2009
Euros	$ 419,172	$ 329,417
British pounds sterling	125,487	126,282
Japanese yen	83,596	78,537
Other	278,087	259,356
	$ 906,342	$ 793,592

The University manages foreign exchange risk through the use of forward foreign currency contracts and manager agreements that provide minimum diversification and maximum exposure limits by country and currency.

The Daily and Monthly Portfolios held positions in bond futures at June 30, 2010 and 2009. Bond futures are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios. To meet trading margin requirements, the University had U.S. government securities and cash with a fair value of $4,422,000 and $3,889,000 at June 30, 2010 and 2009, respectively, on deposit with its futures contract broker as collateral.

The Long Term Portfolio and the Monthly Portfolio participate in a short-term, fully collateralized, securities lending program administered by the University's master custodian. Together, the Portfolios had $115,515,000 and $234,288,000 in securities loans outstanding at June 30, 2010, and 2009, respectively. Since the University does not possess or control the collateral and neither the University nor its lending agent has the ability to pledge or sell collateral unless the borrower defaults, the related collateral assets and liabilities are not recorded in the accompanying financial statements.

Note 3—Accounts Receivable

The composition of accounts receivable at June 30, 2010 and 2009 is summarized as follows:

(in thousands)	2010	2009
Patient care	$ 377,316	$ 355,395
Sponsored programs	82,464	72,001
State appropriations, educational and capital	65,875	68,865
Student accounts	21,626	21,118
Other	35,999	33,568
	583,280	550,947
Less provision for uncollectible accounts receivable	121,658	116,149
	$ 461,622	$ 434,798

Note 4—Notes and Pledges Receivable

The composition of notes and pledges receivable at June 30, 2010 and 2009 is summarized as follows:

(in thousands)	2010	2009
Notes:		
Federal student loan programs	$ 94,432	$ 99,710
University student loan funds	20,756	19,753
Other	734	761
	115,922	120,224
Less allowance for doubtfully collectible notes	2,800	2,800
Total notes receivable, net	113,122	117,424
Gift pledges outstanding:		
Capital	112,790	123,976
Operations	61,764	62,329
	174,554	186,305
Less:		
Allowance for doubtfully collectible pledges	6,925	7,114
Unamortized discount to present value	11,149	12,737
Total pledges receivable, net	156,480	166,454
Total notes and pledges receivable, net	269,602	283,878
Less current portion	57,960	64,055
	$ 211,642	$ 219,823

The principal repayment and interest rate terms of federal and university loans vary considerably. The allowance for doubtfully collectible notes only applies to University funded notes and the University portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various health professions loan programs.

Payments on pledges receivable at June 30, 2010 are expected to be received in the following years ended June 30 (in thousands):

2011	$ 50,398
2012-2015	97,789
2016 and after	26,367
	$ 174,554

As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $68,580,000 and $91,587,000 at June 30, 2010 and 2009, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation.

Note 5—Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009 is summarized as follows:

2010

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 89,217	$ 4,747		$ 93,964
Land improvements	97,743	4,857	$ 326	102,274
Infrastructure	200,271	13,501		213,772
Buildings	5,112,648	760,634	10,485	5,862,797
Construction in progress	786,480	(240,885)		545,595
Property held for future use	114,029	(29,690)		84,339
Equipment	1,509,299	160,590	46,602	1,623,287
Library materials	428,609	21,522	289	449,842
	8,338,296	695,276	57,702	8,975,870
Less accumulated depreciation	3,710,798	360,089	51,474	4,019,413
	$ 4,627,498	$ 335,187	$ 6,228	$ 4,956,457

2009

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 88,893	$ 324		$ 89,217
Land improvements	96,399	1,344		97,743
Infrastructure	185,163	15,108		200,271
Buildings	4,702,944	413,893	$ 4,189	5,112,648
Construction in progress	646,908	139,572		786,480
Property held for future use	-	114,029		114,029
Equipment	1,414,315	137,215	42,231	1,509,299
Library materials	405,928	22,681		428,609
	7,540,550	844,166	46,420	8,338,296
Less accumulated depreciation	3,410,720	341,462	41,384	3,710,798
	$ 4,129,830	$ 502,704	$ 5,036	$ 4,627,498

The decrease in construction in progress of $240,885,000 in 2010 represents the amount of capital assets placed in service of $845,404,000 net of capital expenditures for new projects of $604,519,000. The increase in construction in progress of $139,572,000 in 2009 represents the amount of capital expenditures for new projects of $556,578,000 net of capital assets placed in service of $417,006,000. Interest of $5,640,000 and $1,370,000 was capitalized in 2010 and 2009, respectively.

Property held for future use represents the unoccupied portion of the North Campus Research Complex. The University acquired this property in June 2009 for approximately $114,000,000, including liabilities assumed in the purchase. During 2010, $29,690,000 of the acquired property was placed in service.

Note 6—Long-term Debt

Long-term debt at June 30, 2010 and 2009 is summarized as follows:

(in thousands)	2010	2009
Commercial Paper:		
Tax-exempt, variable rate (.30%)*	$ 81,110	$ 96,070
Taxable, variable rate (.35%)*	6,095	6,435
General Revenue Bonds:		
Series 2010A, taxable–Build America Bonds, 4.926% to 5.593% through 2040	163,110	
Series 2010C, 2.00% to 5.00% through 2027	184,225	
unamortized premium	17,635	
Series 2009A, 2.00% to 5.00% through 2029	95,310	98,555
Series 2009B, variable rate (.29%)* through 2039	118,710	118,710
unamortized premium	7,668	8,150
Series 2009D, taxable–Build America Bonds, 5.155% to 6.172% through 2030	89,815	89,815
Series 2008A, variable rate (.15%)* through 2038	105,810	105,810
Series 2008B, variable rate (.20%)* to fixed via swap through 2026 and variable rate 2027 through 2028	115,205	116,800
Series 2005A, 5.00% through 2018	26,345	30,430
unamortized premium	1,472	1,955
unamortized loss on extinguishment	(175)	(241)
Series 2005B, variable rate		46,070
Series 2002, variable rate (.28%)* to fixed via swap through 2018 and variable rate 2019 through 2032	106,775	112,845
General Revenue Refunding Bonds:		
Series 2003, 3.50% to 5.00% through 2015	18,000	23,850
unamortized premium	614	1,031
unamortized loss on extinguishment	(106)	(184)
Hospital Revenue Bonds:		
Series 2007A, variable rate (.14%)* through 2038	26,195	50,120
Series 2007B, variable rate (.26%)* through 2038	44,310	100,235
Series 2005A, variable rate (.15%)* through 2036	69,315	69,315
Series 2005B, variable rate (.28%)* to fixed via swap through 2026	68,705	71,940
Series 1995A, variable rate		100,000
Hospital Revenue Refunding Bonds:		
Series 2002A, 5.00% to 5.25% through 2022	47,585	49,095
unamortized premium	672	946
unamortized loss on extinguishment	(1,755)	(2,036)
Series 1998A-2, variable rate (.15%)* to fixed via swap through 2025	44,670	44,670
Series 1992A, variable rate		56,000
Medical Service Plan Revenue Bonds:		
Series 1995A, variable rate (.18%)* through 2028	26,200	48,200
Series 1991, 7.05% capital appreciation through 2012	4,099	5,945
Medical Service Plan Revenue Refunding Bonds:		
Series 1998A-1, variable rate (.15%)* to fixed via swap through 2022	34,345	34,695
Housing Energy Conservation HUD Loan, 3.00% through 2021	1,943	2,090
	1,503,902	1,487,316
Less:		
Commercial paper and current portion of bonds payable	122,581	178,690
Long-term bonds payable subject to remarketing, net	384,550	652,285
	$ 996,771	$ 656,341

*Denotes variable rate at June 30, 2010

The variable rate portion of bonds payable have remarketing features which allow bondholders to put debt back to the University. Accordingly, variable rate bonds payable are classified as current unless supported by long-term liquidity agreements, such as lines of credit or standby bond purchase agreements, which can refinance the debt on a long-term basis. The classification of the University's variable rate bonds payable at June 30, 2010 and 2009 is summarized as follows:

(in thousands)	2010	2009
Variable rate bonds payable subject to remarketing	$ 760,240	$ 1,075,410
Less:		
Current principal maturities	13,110	57,920
Long-term liquidity agreements:		
Unsecured lines of credit	150,000	250,000
Standby bond purchase agreements	212,580	115,205
Long-term bonds payable subject to remarketing, net	$ 384,550	$ 652,285

The University also has a $150,000,000 line of credit to provide short-term liquidity for up to five days. The University's available lines of credit and standby bond purchase agreement were entirely unused at June 30, 2010.

In connection with certain issues of variable rate debt, the University has entered into various floating-to-fixed interest rate swaps to convert all or a portion of the associated variable rate debt to synthetic fixed rates to protect against the potential of rising interest rates. The fair value, significant terms and other information about the University's interest rate swaps is discussed in Note 7.

Long-term debt activity, and the type of revenue it is supported by, for the year ended June 30, 2010 is summarized as follows:

(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial Paper:				
General revenues	$ 102,505	$ 7,770	$ 23,070	$ 87,205
Bonds and Notes:				
General revenues	753,596	365,166	68,349	1,050,413
Hospital revenues	540,285		240,588	299,697
Faculty Group Practice revenues	88,840	349	24,545	64,644
Student residences revenues	2,090		147	1,943
	$ 1,487,316	$ 373,285	$ 356,699	$ 1,503,902

The University maintains a combination of variable and fixed rate debt, with effective interest rates that averaged approximately 2 percent in 2010 and 2009, including the amortization of bond premiums and discounts and net of federal subsidies for interest on taxable Build America Bonds. The University utilizes commercial paper to provide interim financing for its capital improvement program. The Board of Regents has authorized the issuance of up to $150,000,000 in commercial paper backed by a general revenue pledge. Outstanding commercial paper debt is converted to long-term debt financing, as appropriate, within the normal course of business.

During 2010, the University issued $347,335,000 of General Revenue Bonds with a net original issue premium of $17,830,961. Total bond proceeds of $365,165,961 were utilized to refund variable rate hospital and medical service plan revenue supported bonds of $201,250,000 as well as provide $162,110,000 for capital projects and $1,805,961 for debt issuance costs.

General Revenue Bonds issued in 2010 include $163,110,000 of fixed rate taxable Build America Bonds (Series 2010A) and $184,225,000 of fixed rate tax-exempt bonds (Series 2010C). Variable rate bonds refunded with proceeds from this debt issuance include $100,000,000 of Series 1995A Hospital Revenue Bonds, $23,925,000 of Series 2007A Hospital Revenue Bonds, $55,925,000 of Series 2007B Hospital Revenue Bonds and $21,400,000 of Series 1995A Medical Service Plan Revenue Bonds. In 2010, the University also refunded $46,070,000 of variable rate Series 2005B General Revenue Bonds, utilizing a portion of proceeds from the Series 2009A (fixed rate) and Series 2009B (variable rate) General Revenue Bonds issued in 2009, and extinguished $56,000,000 of variable rate Series 1992A Hospital Revenue Refunding Bonds.

Debt obligations are generally callable by the University and mature at various dates through fiscal 2040. Principal maturities and interest on debt obligations, based on scheduled bond maturities, for the next five years and in subsequent five-year periods are as follows:

(in thousands)	Principal	Interest*	Total
2011	$ 119,991	$ 32,323	$ 152,314
2012	46,100	31,306	77,406
2013	54,206	29,902	84,108
2014	42,441	28,714	71,155
2015	43,566	27,772	71,338
2016-2020	210,949	123,984	334,933
2021-2025	286,929	90,174	377,103
2026-2030	280,865	47,814	328,679
2031-2035	228,240	20,321	248,561
2036-2040	164,590	7,805	172,395
	1,477,877	$ 440,115	$ 1,917,992
Plus unamortized premiums, net	26,025		
	$ 1,503,902		

*Interest on variable rate debt is estimated based on rates in effect at June 30, 2010; amounts do not reflect federal subsidies to be received for Build America Bonds interest

If all variable rate bonds were put back to the University and existing unsecured lines of credit and standby bond purchase agreements were not extended upon their current expiration dates, the total principal payments due in 2011 would increase to $504,541,000 and the total principal payments due in 2012 would increase to $393,955,000. Accordingly, principal payments due in subsequent years would be reduced to $36,571,000 in 2013; $24,046,000 in 2014; $24,346,000 in 2015; $106,719,000 in 2016 through 2020; $151,614,000 in 2021 through 2025; $158,495,000 in 2026 through 2030; $35,260,000 in 2031 through 2035; and $42,330,000 in 2036 through 2040. There would not be a significant impact on annual interest payments due to the low variable rate of interest on these bonds.

Note 7—Derivative Instruments

During 2010, the University adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* which requires all derivative instruments within its scope to be reported at fair value in the statement of net assets. For hedging derivative instruments that are effective in significantly reducing an identified financial risk, as defined by the Statement, the corresponding change in fair value is deferred and included in the statement of net assets. For all other derivative instruments, changes in fair value are reported as net investment income (loss).

Derivative instruments held by the University at June 30, 2010 and 2009 are summarized as follows:

	2010		2009	
(in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Investment Derivative Instruments:				
Investment portfolios:				
Futures	$ 284,993	$ 3,058	$ 242,097	$ 614
Foreign currency forwards	368,749	(3,254)	396,487	16,486
Other	71,522	(744)	20,916	(575)
	$ 725,264	$ (940)	$ 659,500	$ 16,525
Floating-to-fixed interest rate swap on debt	$ 52,145	$ (3,266)	$ 58,215	$ (2,339)
Effective Cash Flow Hedges:				
Floating-to-fixed interest rate swaps on debt	$ 246,210	$ (32,658)	$ 249,795	$ (23,299)

The University utilizes bond futures in its investment portfolios to adjust the duration of cash equivalents and fixed income securities, while foreign currency forward contracts are utilized to settle securities and transactions denominated in foreign (non-US dollar) currencies and manage foreign exchange risk. Other investment derivative instruments in the University's investment portfolios consist primarily of interest rate swaps, credit default swaps and total return swaps used to carry out investment and portfolio strategies. Prior to implementation of GASB Statement No. 53, derivative instruments in the University's investment portfolios were reported as investments at fair value. Accordingly, implementation of this Statement did not impact the carrying value of derivative instruments in the University's investment portfolios

In connection with certain issues of variable rate debt, the University has entered into various floating-to-fixed interest rate swaps to convert all or a portion of the associated variable rate debt to synthetic fixed rates to protect against the potential of rising interest rates. The fair value represents the estimated amount that the University would pay to terminate the swap agreements at the statement of net assets date, taking into account current interest rates and creditworthiness of the underlying counterparty. The notional amount represents the underlying reference of the instrument and does not represent the amount of the University's settlement obligations.

In accordance with GASB Statement No. 53, an interest rate swap is considered an effective cash flow hedge hedge if the swap payments received substantially offset the payments made on the associated debt and changes in fair value are deferred. An interest rate swap that is not considered an effective cash flow hedge, in accordance with the provisions of this Statement, is deemed to be an investment derivative instrument and changes in fair value are recorded as net investment income (loss).

At June 30, 2010 and 2009, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is a liability of $35,924,000 and $25,637,000, respectively, and is included in the statement of net assets as part of noncurrent other liabilities. The majority of the University's interest rate swaps qualify as effective hedges as defined by GASB Statement No. 53. The corresponding deferred asset for the fair value of swaps deemed effective cash flow hedges totalled $32,658,000 and $23,299,000, at June 30, 2010 and 2009, respectively. Prior to implementation of GASB Statement No. 53, interest rate swaps associated with the University's bonds payable were not recorded in the statement of net assets.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2010 and 2009 is summarized as follows:

(in thousands)	2010	2009
Investment Derivative Instruments:		
Investment portfolios:		
Futures	$ 19,320	$ 9,495
Foreign currency forwards	8,458	846
Other	(717)	(636)
	$ 27,061	$ 9,705
Floating-to-fixed interest rate swap on debt	$ (927)	$ (703)
Effective Cash Flow Hedges:		
Floating-to-fixed interest rate swaps on debt	$ (9,359)	$ (13,323)

The University's interest rate swaps, along with their associated variable rate debt and significant terms, are summarized as follows.

The floating-to-fixed interest rate swap associated with the Series 2008B General Revenue Bonds has a notional amount of $98,490,000 at June 30, 2010 and 2009 covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. Effective from April 1, 2008, the University makes payments based on a fixed rate of 3.105 percent and receives variable rate payments from the swap counterparty based on 68 percent of One-Month USD LIBOR, until the swap terminates in April 2026. The University has the option to terminate the swap upon five business day written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2010 and 2009 and has a fair value of ($9,187,000) and ($5,321,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2005B Hospital Revenue Bonds has a notional amount of $68,705,000 and $71,940,000 at June 30, 2010 and 2009, respectively, tied to the outstanding balance of the bonds. Effective from December 1, 2005, the University makes payments based on a fixed rate of 3.229 percent and receives variable rate payments from the swap counterparty based on 68 percent of the One-Month USD LIBOR, until the bonds mature in December 2025. The University has the option to terminate the swap upon five business day written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2010 and 2009 and has a fair value of ($6,539,000) and ($4,073,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2002 General Revenue Bonds has a notional amount of $52,145,000 and $58,215,000 at June 30, 2010 and 2009, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. Effective from June 1, 2007, the University makes payments based on a fixed rate of 3.5375 percent and receives variable rate payments from the swap counterparty based on 68 percent of One-Month USD LIBOR, through April 1, 2009, and 63 percent of the Five-Year USD LIBOR Swap Rate for the balance of the term, through April 2018. The University has the option to terminate the swap upon five business day written notice and payment of the fair market compensation for the value of the swap. This swap is not considered an effective edge at June 30, 2010 and 2009 and has a fair value of ($3,266,000) and ($2,339,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 1998A-2 Hospital Revenue Refunding Bonds has a notional amount of $44,670,000 at June 30, 2010 and 2009 tied to the outstanding balance of the bonds. Effective from May 14, 1998, the University makes payments based on a fixed rate of 4.705 percent and receives variable rate payments from the swap counterparty based on the floating Securities Industry and Financial Markets Association (SIFMA) Municipal Index through the final maturity dates of the underlying bonds in December 2024. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. This swap is considered an effective hedge at June 30, 2010 and 2009 and has a fair value of ($11,088,000) and ($8,907,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 1998A-1 Medical Service Plan Revenue Refunding Bonds has a notional amount of $34,345,000 and $34,695,000 at June 30, 2010 and 2009, respectively, tied to the outstanding balance of the bonds. Effective from May 14, 1998, the University makes payments based on a fixed rate of 4.685 percent and receives variable rate payments based on the floating Securities Industry and Financial Markets Association (SIFMA) Municipal Index through the final maturity dates of the underlying bonds in December 2021. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. This swap is considered an effective hedge at June 30, 2010 and 2009 and has a fair value of ($5,844,000) and ($4,998,000), respectively.

Using rates in effect at June 30, 2010, the projected cash flows for the floating-to-fixed interest rate swaps deemed effective hedges in accordance with the provisions of GASB Statement No. 53, along with the debt service requirements of the associated variable rate debt, are summarized as follows.

	Variable Rate Bonds		Swap	Total
(in thousands)	Principal	Interest	Payments, Net	Payments
2011	$ 7,050	$ 500	$ 8,238	$ 15,788
2012	9,045	483	8,010	17,538
2013	11,680	459	7,680	19,819
2014	12,155	435	7,292	19,882
2015	12,665	408	6,889	19,962
2016-2020	69,060	1,613	27,837	98,510
2021-2025	112,520	753	13,475	126,748
2026-2030	12,035	17	221	12,273
	$ 246,210	$ 4,668	$ 79,642	$ 330,520

By using derivative financial instruments to hedge exposures to changes in interest rates, the University is exposed to termination risk and basis risk. There is termination risk with floating-to-fixed interest rate swaps because the University or swap counterparty may terminate a swap if the other party fails to perform under the terms of the contract or credit rating falls below investment grade. Termination risk is the risk that the associated variable rate debt no longer carries a synthetic fixed rate and if at the time of termination a swap has a negative fair value, the University is liable to the counterparty for payment equal to the swap's fair value. The University is also exposed to basis risk because some of the variable payments paid to the University by the counterparties are based on a percentage of LIBOR. Basis risk is the risk that changes in the relationship between SIFMA and LIBOR may impact the synthetic fixed rate of the variable rate debt. The University is not exposed to credit risk because the swaps have negative fair values.

The University is required to post collateral for certain floating-to-fixed interest rate swaps if the fair value of the swap reaches a minimum threshold. Based on the University's current credit ratings, the thresholds are $26,000,000 for the swap associated with the Series 1998A-2 Hospital Revenue Refunding Bonds, $27,000,000 for the swap associated with the Series 2005B Hospital Revenue Bonds and $7,000,000 for the swap associated with the Series 1998A-1 Medical Service Plan Revenue Refunding Bonds. There are no collateral requirements for the other two swaps. During 2009, on one occasion the University was required to post collateral of $1,156,000 for less than 30 days for the interest rate swap associated with the Series 1998A-1 Medical Service Plan Revenue Refunding Bonds.

Note 8—Self-Insurance

The University is self-insured for medical malpractice, workers' compensation, directors and officers' liability, property damage, auto liability and general liability through Veritas Insurance Corporation, a wholly-owned captive insurance company. The University is also self-insured for various employee benefits through internally maintained funds.

Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. These liabilities are generally based on actuarial valuations and are reported at present value, discounted at a rate of 6 percent.

Changes in the total reported liability for insurance and benefits obligations for the years ended June 30, 2010 and 2009 are summarized as follows:

(in thousands)	2010	2009
Balance, beginning of year	$ 153,045	$ 142,565
Claims incurred and changes in estimates	396,414	360,002
Claim payments	(394,187)	(349,522)
Balance, end of year	155,272	153,045
Less current portion	66,103	67,133
	$ 89,169	$ 85,912

Note 9—Postemployment Benefits

The University provides retiree health and welfare benefits, primarily medical, prescription drug, dental and life insurance coverage, to eligible retirees and their eligible dependents. Substantially all of the approximately 35,000 full-time permanent University employees may become eligible for these benefits if they reach retirement age while working for the University. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between the University and the retiree and can vary based on date of hire, date of retirement, age and coverage elections.

The University also provides income replacement benefits, retirement savings contributions and health and life insurance benefits to substantially all permanent University employees who are enrolled in a University sponsored long-term disability plan and qualify, based on disability status while working for the University, to receive basic or expanded long-term disability benefits. Contributions toward the expanded long-term disability plan are shared between the University and employees and vary based on years of service, annual base salary and coverage elections. Contributions toward the basic long-term disability plan are paid entirely by the University.

These postemployment benefits are provided through single-employer plans administered by the University. The Executive Vice Presidents of the University have the authority to establish and amend benefit provisions of the plans.

The University's annual postemployment benefits expense is actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Projections of benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

In 2008, the year GASB Statement No. 45 was implemented, the University elected to amortize its initial unfunded actuarial accrued liability over one year, the minimum period allowed by GASB Statement No. 45. The University also elected to amortize subsequent changes in actuarial assumptions, plan design, and experience gains and losses over a ten year closed period. Therefore, the net OPEB obligation recorded in the statement of financial condition will differ from the actuarial accrued liability by the unamortized portion of changes in actuarial assumptions, plan design, and experience gains and losses. At June 30, 2010, the net OPEB obligation and the actuarial accrued liability totalled $1,608,108,000 and $1,278,617,000, respectively.

Changes in the total reported liability for postemployment benefits obligations for the years ended June 30, 2010 and 2009 are summarized as follows:

2010

(in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	$ 1,428,800	$ 134,170	$ 1,562,970
Service cost	43,340	6,196	49,536
Amortization of assumption changes, plan changes, and actuarial (gains) losses	(58,647)	2,448	(56,199)
Interest cost	91,443	10,734	102,177
Payments of current premiums and claims	(36,373)	(14,003)	(50,376)
Balance, end of year	1,468,563	139,545	1,608,108
Less current portion	36,958	14,671	51,629
	$ 1,431,605	$ 124,874	$ 1,556,479

2009

(in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	$ 1,360,175	$ 131,638	$ 1,491,813
Service cost	49,749	5,439	55,188
Amortization of assumption changes and actuarial (gains) losses	(28,941)	328	(28,613)
Interest cost	87,051	10,531	97,582
Payments of current premiums and claims	(39,234)	(13,766)	(53,000)
Balance, end of year	1,428,800	134,170	1,562,970
Less current portion	42,287	16,114	58,401
	$ 1,386,513	$ 118,056	$ 1,504,569

Since a portion of retiree medical services will be provided by the University's Health System, the liability for postemployment benefit obligations is net of the related margin and fixed costs of providing those services which totalled $198,655,000 of actuarial accrued liability at June 30, 2010 and $201,294,000 at June 30, 2009. In accordance with GASB Statement No. 45, the University's liability for postemployment benefit obligations at June 30, 2010 is not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods of $178,822,000 on an actuarial accrued liability basis.

The annual required contribution represents a level of funding that an employer is projected to need in order to prefund its obligations for postemployment benefits over its employees' years of service and totals $114,522,000 and $141,206,000 at June 30, 2010 and 2009, respectively. The University has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. The University's obligations for postemployment benefits at June 30, 2010, 2009 and 2008 as a percentage of covered payroll of $2,551,273,000, $2,456,343,000 and $2,311,422,000, was 63, 64 and 65 percent, respectively.

The University's liability for postemployment benefits obligations was calculated using the projected unit credit method. Significant actuarial methods and assumptions used in the valuation for years ended June 30, 2010 and 2009 are as follows:

2010

	Retiree Health and Welfare	Long-term Disability
Discount Rate	6.4%	8.0%
Inflation Rate	3.0%	3.0%
Immediate/Ultimate Medical Trend Rate	9.0%-7.5%/5.0%	9.0%-7.5%/5.0%
Immediate/Ultimate Rx Trend Rate	7.5%/5.0%	7.5%/5.0%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Projected to 2015	2005 SOA Life Waiver (Modified)

2009

	Retiree Health and Welfare	Long-term Disability
Discount Rate	6.4%	8.0%
Inflation Rate	3.0%	3.0%
Immediate/Ultimate Medical Trend Rate	9.0%-8.0%/5.0%	9.0%-8.0%./5.0%
Immediate/Ultimate Rx Trend Rate	8.0%/5.0%	8.0%/5.0%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Projected to 2015	2005 SOA Life Waiver (Modified)

Note 10—Retirement Plan

The University has a defined contribution retirement plan for all qualified employees through the Teachers Insurance and Annuity Association - College Retirement Equities Fund (“TIAA-CREF”) and Fidelity Management Trust Company (“FMTC”) mutual funds. All regular and supplemental instructional and primary staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA-CREF, or accounts with FMTC, and are fully vested.

Eligible employees generally contribute 5 percent of their pay and the University generally contributes an amount equal to 10 percent of employees’ pay to the plan. Effective January 1, 2010, the University contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plans within specified limits that are not matched by University contributions. Contributions and covered payroll under the plan (excluding participants’ additional contributions) for the three years ended June 30, 2010 are summarized as follows:

(in thousands)	**2010**	**2009**	**2008**
University contributions	$ 215,905	$ 208,707	$ 194,962
Employee contributions	$ 106,389	$ 102,705	$ 96,015
Payroll covered under plan	$ 2,551,273	$ 2,456,343	$ 2,311,422
Total payroll	$ 2,698,219	$ 2,580,373	$ 2,444,522

Note 11—Unrestricted Net Assets

Unrestricted net assets, as defined by GASB, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management, the Board of Regents. All of the unrestricted net assets, which totalled $1,836,294,000 at June 30, 2010, have been designated for academic and research programs and initiatives, and capital programs.

Note 12—Federal Direct Lending Program

The University distributed $342,076,000 and $298,857,000 for the years ending June 30, 2010 and 2009, respectively, for student loans through the U.S. Department of Education (“DoED”) federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements. The statement of net assets includes a payable of $871,000 and $2,573,000 at June 30, 2010 and 2009, respectively, for DoED funding received in advance of distribution.

Note 13—Commitments and Contingencies

Authorized expenditures for construction and other projects unexpended as of June 30, 2010 were $791,863,000. Of these expenditures, approximately $766,291,000 will be funded by internal sources, gifts and future borrowings, $24,136,000 will be funded using unexpended debt proceeds and the remaining $1,436,000 will be funded by the State Building Authority.

Under the terms of various limited partnership agreements approved by the Board of Regents or by University officers, the University is obligated to make periodic payments for advance commitments to venture capital, private equity, real estate, energy and absolute return strategies. As of June 30, 2010, the University had committed, but not paid, a total of $2,214,711,000 in funding for these alternative investments. Based on historical capital calls and discussions with those managing the limited partnerships, outstanding commitments for such investments are anticipated to be paid in the following years ended June 30 (in thousands):

2011	$ 504,723
2012	602,030
2013	392,869
2014	197,361
2015	167,964
2016 and beyond	349,764
	$ 2,214,711

These commitments are generally able to be called prior to an agreed commitment expiration date and therefore may occur earlier or later than estimated.

The University has entered into operating leases for space, which expire at various dates through 2027. Outstanding commitments for these leases are expected to be paid in the following years ended June 30 (in thousands):

2011	$ 30,540
2012	25,784
2013	18,110
2014	10,423
2015	7,458
2016-2020	12,374
2021-2025	2,852
2026-2027	599
	$ 108,140

Operating lease expenses totalled $34,523,000 and $32,467,000 in 2010 and 2009, respectively.

Substantial amounts are received and expended by the University under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, patient care and other programs. The University believes that any liabilities arising from such audits will not have a material effect on its financial position.

The University is a party to various pending legal actions and other claims in the normal course of business, and is of the opinion that the outcome thereof will not have a material adverse effect on its financial position.

Note 14—Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirements of GASB.

The University of Michigan Hospitals and Health Centers (“HHC”) operates several health care facilities and programs in southeastern Michigan, providing hospital care, ambulatory care, and other health services. HHC serves as the principal teaching facility for the University of Michigan Medical School. The faculty of the Medical School provides substantially all physician services to HHC through its Faculty Group Practice.

HHC’s outstanding debt, referred to as Hospital Revenue Bonds and Hospital Revenue Refunding Bonds, was issued pursuant to a Master Indenture Agreement, dated May 1, 1986. These bonds are solely payable from, and secured by, a pledge of hospital gross revenues, as defined in the Master Indenture. The University, as permitted by the Master Indenture, has further defined hospital gross revenues pledged to exclude revenues deemed to be associated with the Faculty Group Practice.

Note 14—Segment Information, continued

Condensed financial information for HHC, before the elimination of certain intra-University transactions, as of and for the years ended June 30, 2010 and 2009 is as follows:

(in thousands)	2010	2009
Condensed Statement of Net Assets		
Assets:		
Current assets	$ 393,830	$ 415,451
Noncurrent assets	2,455,854	2,290,005
Total assets	$ 2,849,684	$ 2,705,456
Liabilities:		
Current liabilities	$ 281,385	$ 415,106
Noncurrent liabilities	966,483	753,041
Total liabilities	1,247,868	1,168,147
Net assets:		
Invested in capital assets, net of related debt	670,052	609,050
Restricted:		
Nonexpendable	2,868	2,646
Expendable	92,463	70,262
Unrestricted	836,433	855,351
Total net assets	1,601,816	1,537,309
Total liabilities and net assets	$ 2,849,684	$ 2,705,456
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues	$ 1,974,517	$ 1,836,837
Operating expenses other than depreciation expense	(1,778,788)	(1,691,520)
Depreciation expense	(135,887)	(129,974)
Operating income	59,842	15,343
Nonoperating revenues (expenses), net	105,238	(297,293)
Net income (expenses) before transfers	165,080	(281,950)
Transfers to other University units, net	(100,573)	(59,192)
Increase (decrease) in net assets	64,507	(341,142)
Net assets, beginning of year	1,537,309	1,878,451
Net assets, end of year	$ 1,601,816	$ 1,537,309
Condensed Statement of Cash Flows		
Net cash provided by operating activities	$ 196,653	$ 175,354
Net cash provided by investing activities	85,533	61,485
Net cash used in capital and related financing activities	(257,400)	(147,389)
Net cash used in noncapital financing activities	(59,246)	(56,187)
Net (decrease) increase in cash and cash equivalents	(34,460)	33,263
Cash and cash equivalents, beginning of year	190,275	157,012
Cash and cash equivalents, end of year	$ 155,815	$ 190,275

Note 15—Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2010 and 2009 are summarized as follows:

2010

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 739,459	$ 119,120			$ 858,579
Research	463,421	208,061			671,482
Public service	96,469	39,295			135,764
Academic support	183,306	43,182			226,488
Student services	67,277	16,837			84,114
Institutional support	134,366	40,066			174,432
Operations and maintenance of plant	42,291	223,708			265,999
Auxiliary enterprises	1,802,682	586,662			2,389,344
Depreciation			$ 360,089		360,089
Scholarships and fellowships				$ 113,753	113,753
	$ 3,529,271	$ 1,276,931	$ 360,089	$ 113,753	$ 5,280,044

2009

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 708,171	$ 112,082			$ 820,253
Research	427,564	195,079			622,643
Public service	86,682	39,782			126,464
Academic support	178,111	46,773			224,884
Student services	66,127	17,063			83,190
Institutional support	134,631	42,452			177,083
Operations and maintenance of plant	43,718	234,166			277,884
Auxiliary enterprises	1,745,466	567,681			2,313,147
Depreciation			$ 341,462		341,462
Scholarships and fellowships				$ 107,127	107,127
	$ 3,390,470	$ 1,255,078	$ 341,462	$ 107,127	$ 5,094,137