2015 ANNUAL REPORT

UNIVERSITY OF MICHIGAN

ON THE COVER:
The Munger Graduate Residences, made possible by a gift from Charles Munger, creates an environment for a community of scholars committed to transdisciplinary living and learning.

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LETTER FROM THE

President

Mark S. Schlissel

IT WAS A PLEASURE OVER THE LAST YEAR LEARNING ABOUT OUR GREAT UNIVERSITY AND THE AMAZING PEOPLE IN OUR COMMUNITY WHO CONTRIBUTE TO THE UNIVERSITY'S ONGOING EXCELLENCE.

I met students, faculty, staff, alumni, and supporters here in Ann Arbor, Dearborn, and Flint; traveled to cities around Michigan and throughout the country; and made my first international trip as president, to China. I learned much about this university and the communities and patients we serve.

The University of Michigan's academic strengths run broad and deep. There's really no place like it in higher education in terms of scale, scope, and breadth of excellence.

I have seen firsthand the impact we make with our work. Whether it is students helping to enhance communities in Detroit, researchers contributing to medical advances in China, or staff making our campuses and health system run smoothly, our passion for advancing the public good is thriving here at the University of Michigan.

"Our passion for advancing the public good is thriving here at the University of Michigan."

"Understanding and discovery can change the world."

These conversations have helped me further appreciate our many strengths and identify the areas I want to focus on in the near term:

- Enhancing academic excellence
- Increasing access and affordability
- Increasing diversity, equity, and inclusion throughout the campus community
- Enhancing collaboration and partnerships among our three campuses, with other universities and throughout the state, with our partners in industry, and in the communities we serve
- Fostering U-M's global footprint
- Ensuring that the U-M Health System is the best it can be in research, teaching, and patient care.

I am bullish about our future, mainly because of my interactions with members of our community. The ideas and commitment I have seen are outstanding, and I have every confidence we can extend our excellence in each of the areas I noted.

We are also in a strong position financially, as this report details, thanks to the tremendous work by so many people at U-M.

At nearly $1.3 billion in research expenditures, we have maintained our volume of research despite the challenges in this sector and greater competition for available funds. This is an indication of the strength of our faculty and our ability to partner with the private sector.

We will continue to look for additional operational efficiencies while also making important investments to maintain and enhance academic excellence. Finding that right balance is critical. The goal is to keep the increase in tuition as small as possible. The university has been disciplined in pursuing this goal during some tough economic times during the past decade.

At the same time, we've significantly increased financial aid resources so that aid has covered any increase in cost for the vast majority of in-state students receiving financial aid. More than 70 percent of our in-state undergraduates are receiving need-based financial aid. The Victors for Michigan campaign directly supports this work. As part of its overall $4 billion goal, it has a goal of raising $1 billion for student support. That's an aggressive goal, and I'm happy to report that we are more than halfway there.

Donors are the lifeblood of much of our work. They provide resources to enhance student experiences across the full spectrum of our educational programs. This year, U-M had the most donors in its history.

It takes a combination of all those elements—cost control, increasing financial aid, tuition restraint, philanthropy—along with what we hope will be a continuation of reinvestment by the state in higher education, to keep a U-M education affordable.

Together, our community is building on the proud traditions established by generations of the Michigan family and branching out into some of the most innovative projects that have the potential to change society for the better.

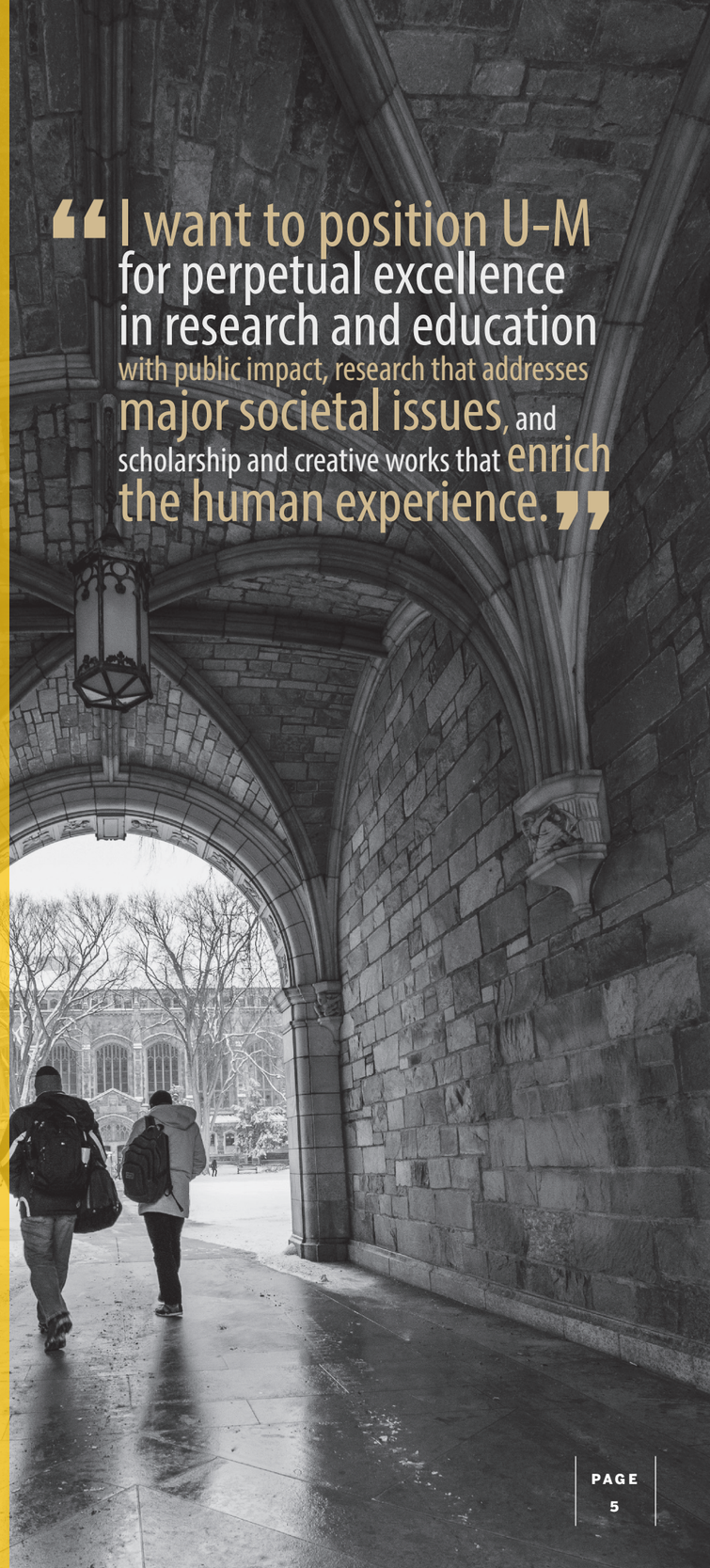
In recent years, the university has launched outstanding cross-disciplinary projects that benefit the public. The Mobility Transformation Center on North Campus, with its Mcity test environment for autonomous and interactive vehicles, and the Institute for Healthcare Policy and Innovation are just two examples.

I want to position U-M for perpetual excellence in research and education with public impact, research that addresses major societal issues, and scholarship and creative works that enrich the human experience. To best achieve this, I hope to tap into our faculty's entrepreneurial nature and to leverage the remarkable breadth of U-M's academic portfolio.

Our potential to be more than the sum of our many excellent parts is truly exciting. I am proud and honored to be a member of this special academic community.

Sincerely,

Mark Schlissel
President



REPORT FROM THE

Chief Financial Officer

I AM PLEASED TO HAVE JOINED THE UNIVERSITY OF MICHIGAN AS EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER IN APRIL OF 2015. SINCE ARRIVING, I HAVE SPENT TIME EXPLORING THIS MAGNIFICENT UNIVERSITY, MEETING ITS PEOPLE, AND UNDERSTANDING WHAT IT MEANS TO BE A VICTOR. I am impressed by the unwavering commitment of the faculty and staff to build on the institution's already strong reputation and longstanding tradition of excellence.

A disciplined budget approach balances the university's need to be competitive for the best students and talent with a challenging economic environment where improving financial efficiency is an imperative. I have found that the university's 45,000 faculty and staff have a relentless can-do attitude focused on enhancing the university's core commitment to education, research, and patient care, while providing excellent stewardship of its financial resources.

The university's balance sheet continues to be strong. Net position increased $238 million in FY 2015 to $13.3 billion. Generous gifts for endowment and capital construction contributed $142 million, returns from our endowment investments net of distributions added $35 million, and positive results from our many cost containment efforts were also key drivers of this growth.

Endowment funds, which are invested principally in the university's Long Term Portfolio, increased $221 million in FY 2015, growing to nearly $10 billion. Distributions from approximately 9,200 separate endowments provide ongoing support for specific academic and health-related needs across the university's many disciplines, including student scholarships, educational programs, professorships, clinical operations, and research.

Kevin P. Hegarty

"A disciplined budget approach balances the university's need to be competitive for the best students and talent with a challenging economic environment where improving financial efficiency is an imperative."

"Support from the state of Michigan remains a cornerstone of our strength."

INVESTMENT PERFORMANCE

	RETURN FOR THE 12-MONTH PERIOD ENDED JUNE 30, 2015	ANNUALIZED 5-YEAR RETURN	ANNUALIZED 10-YEAR RETURN
LONG TERM PORTFOLIO	3.5%	11.0%	8.4%
U-M'S BENCHMARK	3.9%	10.8%	7.5%
BLENDED PASSIVE INDEX	0.1%	10.2%	5.4%

Our long-term diversified investment strategy is designed to maximize total investment return. The university's endowment distribution policy is designed to protect the endowment corpus and provide dependable financial support for academic and health operations regardless of the economic environment. The table above summarizes the university's investment performance of the Long Term Portfolio in relation to relevant comparative benchmark portfolio returns.

With a 10-year annualized return of 8.4 percent, the investment performance of the university's Long Term Portfolio ranks in the top quartile of performance relative to those of other large endowment portfolios. The university's five-year and 10-year annualized returns continued to exceed those of its custom U-M Benchmark and Blended Passive Index. Our Investment Office continues to be a key contributor to funding the operations of the university and maintaining its financial health.

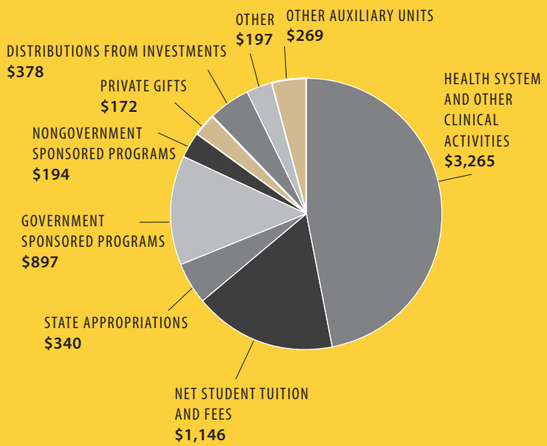
The university is financially stable. Achievement of stability has in part been a result of continuing efforts to diversify the institution's revenue sources. We believe diversification is an important contributing factor to maintaining financial stability throughout varying economic cycles and avoiding unnecessary dependence on student tuition and fee increases. The components of the university's sources of revenue are depicted in the adjacent charts.

While the university has diversified revenue streams, financial support from the state of Michigan remains a cornerstone of our strength. In FY 2015, the university received a 6 percent increase in state appropriations and will receive an increase of 1.4 percent in FY 2016.

The academic operating budget continues to balance academic excellence and investment in the future with student affordability and economic efficiency. The Ann Arbor campus budget for FY 2016 includes tuition rate increases of 2.7 percent for resident undergraduates and most graduate programs as well as a 3.7 percent increase in nonresident undergraduate tuition. Additionally, the budget includes more than $180 million in centrally awarded financial aid. This is the largest pool of financial aid in the university's history. This marks the ninth time in the past 10 years that financial aid has increased by at least 10 percent.

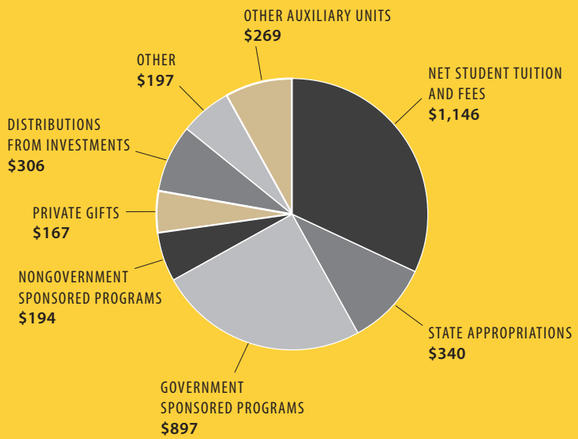
OPERATING ACTIVITIES

Total revenue $6,858 million



OPERATING ACTIVITIES EXCLUDING HEALTH SYSTEM AND OTHER CLINICAL ACTIVITIES

Total revenue $3,516 million



The Dearborn campus budget for FY 2016 includes a 3.2 percent increase in resident undergraduate and graduate tuition rates, the fourth consecutive year of increases of less than 4 percent, along with a 5.3 percent increase in institutionally awarded financial aid. The Flint campus budget for FY 2016 includes a 3.2 percent increase in undergraduate and graduate tuition rates as well as a 13.1 percent increase in institutionally awarded financial aid.

Strong growth in non-tuition revenue streams combined with a commitment to cost containment and improved efficiencies in a number of areas contributed toward limiting increases in resident student tuition.

Demand for a University of Michigan education continues to be at an all-time high. For the eighth consecutive year, the university received a record number of undergraduate applications. The university's national and international reputation for excellence continues to attract outstanding students from Michigan and all over the world as well as top faculty, researchers, and clinicians.

U-M research continues to explore new horizons and generate new ideas, many of which show commercial potential. Our faculty had an exceptional year in FY 2015, receiving 422 new invention disclosures that reflect the breadth and diversity of their research. The university achieved records with 164 new option/license agreements, 19 new startups based on U-M technology, as well as revenue of $79 million from royalties and equity. The vast majority of research is supported by federal sources and U-M remained competitive for research awards from a wide range of agencies, including the National Institutes of Health, National Science Foundation, Department of Energy, Department of Defense, National Aeronautics and Space Administration, and Department of Transportation.

The university is well positioned to sustain the research enterprise moving forward. The total number of new external research awards to U-M rose by 9 percent over the previous year, and the total dollar amount of these awards increased by 7 percent. Efforts underway to expand the Medical School's work in clinical trials also yielded a 28 percent increase in the number awarded from both industry and government. To help address the rising competition for federal funds, the faculty increased both the number and dollar value of proposals submitted in FY 2015 in addition to growing research funding from the commercial sector.

The U-M Health System (UMHS)—which includes the Hospitals and Health Centers, Medical School, and Michigan Health Corporation—continues to be a nationally recognized leader in advanced patient care, innovative research to improve human health, and comprehensive education of physicians and medical scientists. In FY 2015, the U-M Hospitals and Health Centers demonstrated strong financial performance, achieving an operating margin of 3.5 percent on operating revenues of $2.7 billion. These financial results were driven by improved patient access, which was in part created by opening a number of new facilities that increased clinical capacity. These new facilities included a 100,000-square-foot ambulatory care facility in Northville and the 7,800-square-foot Massey Emergency Critical Care Center in Ann Arbor. UMHS also has other initiatives underway that are intended to increase the operating margin to 4.0 percent in FY 2016.

I am pleased to report success in the many cost management initiatives undertaken by the university over the last decade. The university continues to pursue a wide range of strategies to achieve cost reductions and operational efficiencies. We have, among other things, aligned our health benefit offerings with the local and national markets and worked to ensure appropriate levels of cost sharing with our employees. Our strategic sourcing program consolidates the university's spend with high-quality vendors to maximize pricing discounts. We are also working to combine and share university-wide support services. A shared services center, for example, has been established for certain finance and human resource processes. Each of these efforts—and the many other cost containment initiatives underway across the university—have played a key role in reducing overall costs.

Maintaining excellence in education, research, and patient care also requires appropriate facilities that encourage collaboration across multiple disciplines and skill sets. FY 2015 was another successful year of construction and capital renewal of our beautiful campus. A summary of capital projects completed, in progress, and in planning during FY 2015 appears on pages 38-41.

The university's long-term debt continues to earn the highest credit ratings available from Standard & Poor's (AAA) and Moody's Investor Services (Aaa). U-M is one of only four public universities in the country to maintain both of these ratings. This is yet another clear indication of the institution's strong financial health and bright outlook for the coming years.

The University of Michigan is a source of pride for all of us and a beacon of hope for a very encouraging future. I hope you will peruse Management's Discussion and Analysis, which begins on page 45 of this report, in conjunction with the audited financial statements. This informative section details how U-M's financial strength, prudent financial policies, and commitment to maintaining the highest level of excellence help ensure that the university's mission will continue to be fulfilled in the decades ahead.

Sincerely,

Kevin P. Hegarty
Executive Vice President and Chief Financial Officer

REPORT FROM THE

Vice President for Development

"More donors—129,600—made gifts to the university than ever before in its history."

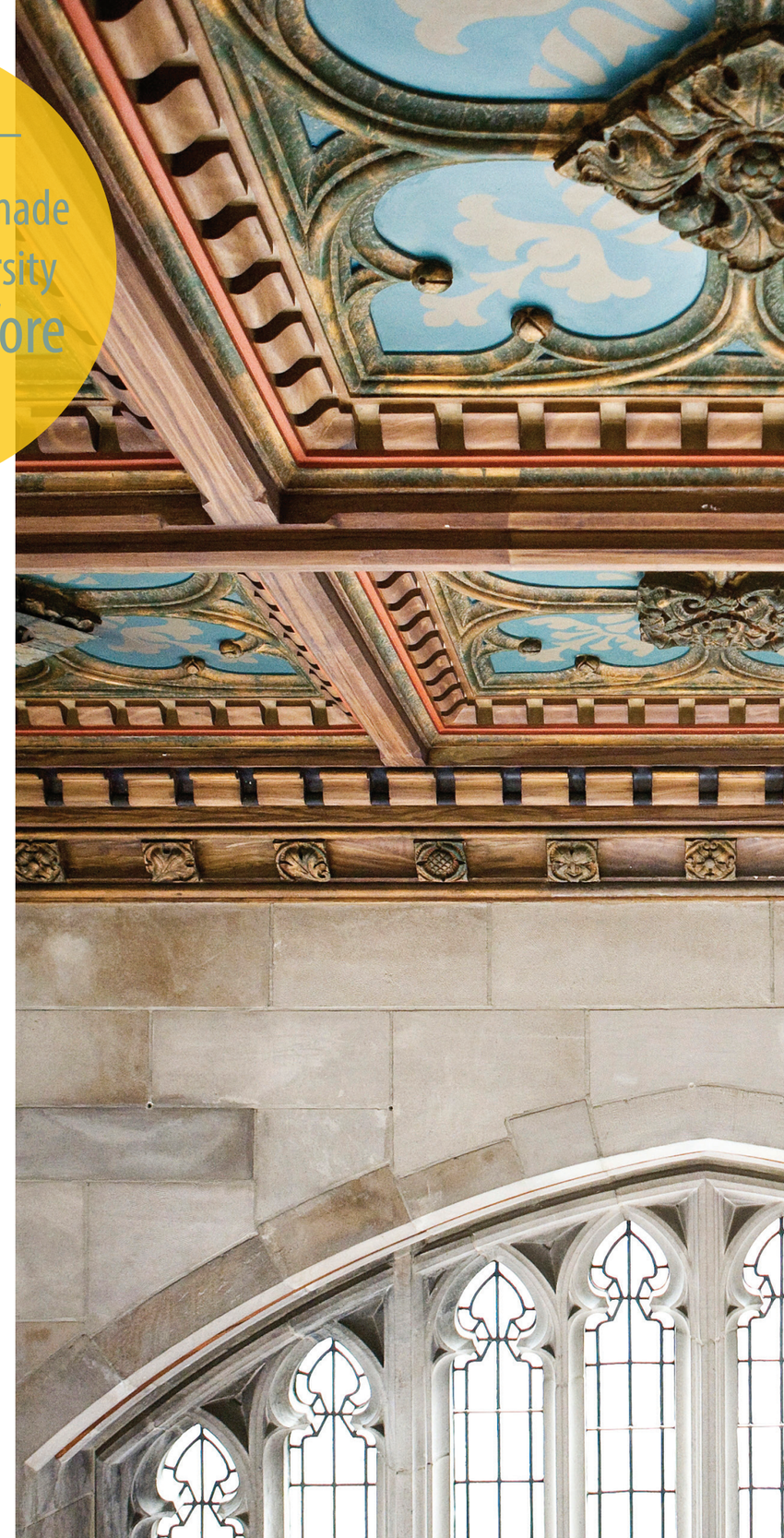
Jerry A. May

I CONTINUE TO BE AWED BY THE GENEROSITY OF OUR DONORS. THEIR PHILANTHROPY MAKES POSSIBLE SO MUCH AT THE UNIVERSITY OF MICHIGAN THAT COULD NOT HAPPEN WITHOUT THEIR SUPPORT.

For the second fiscal year in a row, donors gave more than $400 million in cash and pledge payments. In addition, more donors—129,600—made gifts to the university than ever before in its history.

Corporate giving increased by 10 percent to $24 million. Foundation giving held steady at $60 million. Perhaps the real indicator of donor confidence in the U-M is that in the Big Ten, the University of Michigan has the highest percentage of alumni donors, 75 percent, who make gifts year after year. The U-M also led the Big Ten in having the highest percentage of repeat donors last year.

While larger gifts often make the news, it is noteworthy that about 121,400 donors made gifts of $25,000 or less, an increase of almost 2,000 donors making gifts of this size over last year.



Part of the increase in the number of donors at this level occurred because for the first time, the University of Michigan joined nonprofit organizations nationwide in participating in Giving Tuesday, the Tuesday after Thanksgiving, as a day encouraging giving to the causes people are passionate about. We set the ambitious goal of raising $1 million in 24 hours from 1,000 donors and were astounded by donor response. We called it Giving Blueday.

- 5,400 donors gave $3.2 million in 24 hours.
- 2,500 were new donors to the U-M.
- 2,000 students and recent graduates contributed more than $125,000.
- 80 student organizations participated and raised more than $150,000 for their causes.
- A vast majority of the gifts were in the range of $5–$150.
- 20 percent of Giving Blueday donors made another gift to the U-M later in the fiscal year.

Introducing our students to the power of philanthropy and encouraging new donors to support areas of the university they feel passionate about made this day of giving a huge success.

The success of Giving Blueday and fiscal year results contributed to the continuing progress of our Victors for Michigan campaign, which kicked off in November 2013.

VICTORS FOR MICHIGAN CAMPAIGN

The impact of the past two record-breaking fiscal years on the Victors for Michigan campaign is significant. As of the end of this fiscal year, 276,000 donors have made gifts to the campaign since it began, totaling $2.91 billion toward the $4 billion goal. Included in that total is $504 million toward the $1 billion goal for student support.

Raising funds for student support is the campaign's highest, most ambitious priority. The campaign is also raising funds for engaged learning to give students hands-on educational experiences both inside and beyond the classroom. Through global experiences, internships, and immersive learning that extend textbook lessons into the real world, engaged learning prepares students to lead in this dynamic, multicultural, entrepreneurial world we live in. The third priority is supporting bold ideas for the public good. We seek to bring the exceptional academic resources of the university—including 100 graduate programs ranked in the top 10 nationally—to bear on significant topics like sustainability, health, K-12 education, and much more.

CAMPAIGN LEADERSHIP BOARD MEMBERS

The campaign's leadership is made up of exceptional volunteer leaders who are committed to making the campaign a success.

CAMPAIGN LEADERSHIP BOARD

Campaign Chair:
Stephen M. Ross (BBA '62, LLD Hon '11)
Campaign Vice Chairs:
Rich Rogel (BBA '70, LLD Hon '09)
A. Alfred Taubman (Taubman College '48, LLD Hon '91) , (1924–2015)
Ambassador Ronald N. (BBA '66) and Eileen L. (MMus '75) Weiser
Helen Zell (AB '64, LHD Hon '13)
Deputy Chairs:
Donald C. (BSE IO '55, MSE '56, DEng Hon '09) and Ingrid A. (BSDes '57) Graham
Penny W. (BSDes '66, TeachCert '66) and E. Roe Stamps
Steering Committee:
Bert Askwith (AB '31), (1911–2015)
J. Robert (BSE Math '45, BSE Physics '45, MS Physics '47, PhD Physics '50) (1924–2014) and Betty J. Beyster
Jeff T. Blau (BBA '90)
Paul W. (BBA '86) and Amy A. Blavin
William K. (BS '50, MS '52, LLD Hon '13) and Delores S. Brehm
Robert M. (BSE IO '63) and Susan C. (AB '63) Brown
Karen W. Davidson (BGS '89)
Frances (ABEd '64, Teach Cert '64) and Kenneth (AB '64) Eisenberg
David S. (BGS '85) and Joan E. (AB '87) Evans
Nathan (AB '85) and Catherine Forbes
Sidney and Madeline Forbes
Stanley D. Frankel (AB '63, MBA '64)
Judith C. (ABEd '59, TeachCert '59) and David G. Frey
J. Ira (BBA '59, LLD Hon '12) and Nicki Harris
Mike J. (BBA '72) and Sue M. Jandernoa
David B. (BBA '89 and Meredith H. (AB '92) Kaplan
Bryan P. (BBA '73, MBA '75) and Kathleen M. (ABEd '72, TeachCert '72) Marsal
Michele D. May (BBA '74) and David R. Walt (BS '74)
Douglas F. Meijer (BBA '76)
Hank (AB '73) and Liesel (AB '89) Meijer
Paul M. (AB '74) and Susan B. (BSN '74, PhD '82) Meister
Peter C. (BS '74, MBA '81) and Carolyn P. Mertz
Jane C. (BBA '86, MAcc '86) and Daniel S. Och
Mary L. Petrovich (BSE IO '85)
Sanford R. (BBA '53, MBA '54) and Jeanne Robertson
Susan Rogel
Elizabeth S. (AB '94) and Jonathan M. Tisch

They are joined by more than 1,400 volunteers who serve on regional committees and on committees in each of the university's school, colleges, and units.

The Earl V. Moore Building, one of the School of Music, Theatre & Dance's primary facilities, recently underwent a major renovation and expansion with lead funding from William and Delores Brehm.

A number of donors made leadership gifts this fiscal year which had a tremendous impact on areas across the university.

■ William (BS '50, MS '52, LLD Hon '13) and Delores Brehm made a gift of $10.5 million for renovations to the Earl V. Moore Building at the School of Music, Theatre & Dance, including the creation of a Music Technology Innovation Suite. In recognition of their leadership giving, the new wing was named the William K. and Delores S. Brehm Pavilion.

■ Kenneth (MA '95, PhD '01) and Jeanne (BA '74, MA '81, MSW '82) Levy-Church made a commitment of $10 million to improve access to cardiovascular care at the Samuel and Jean Frankel Cardiovascular Center.

■ Stephen (MBA '70) and Karen Sanger made a gift of $20 million to the Stephen M. Ross School of Business to create the Sanger Leadership Center, expanding current leadership development programming at the school.

■ Ambassador Ron (BBA '66) and Eileen (MMus '75) Weiser supported six areas of the university with a gift of $50 million: Stephen M. Ross School of Business; the Mary H. Weiser Food Allergy Center in the U-M Health System; the Department of Athletics; the University Musical Society; the Weiser Center for Emerging Democracies to be housed in Weiser Hall in the College of Literature, Science, and the Arts; and the School of Education.

■ Sam Zell (AB '63, JD '66, LLD Hon '05), through the Zell Family Foundation, made a gift of $60 million to support the Zell Lurie Institute for Entrepreneurial Studies at the Stephen M. Ross School of Business. The gift will support the Institute's future through an endowment; it also includes a new fund devoted to student entrepreneurial ventures. This is in addition to the generous gift of $50 million Helen Zell committed previously to the LSA Writers' Program that now bears her name.

While these very large gifts transformed areas of the university, thousands of gifts of all sizes made impacts on all areas of the university providing support for our students, contributing funding for scholars to conduct research that betters our lives, allowing us to treat patients, and making it possible to present the arts to all in our community of Southeast Michigan and beyond.

For this generosity we are most grateful, and acknowledge that the University of Michigan would not be the extraordinary place that it is without the incredible generosity of each of our 129,600 donors.

We lost two extraordinary friends of the University of Michigan this year.

■ A. Alfred Taubman (Taubman College '48, LLD Hon '91), one of America's leading entrepreneurs, philanthropist, and generous friend of the U-M, died at the age of 91. Two of the many areas he supported at the university recently celebrated milestones. He had attended the ground-breaking ceremony of the addition to the A. Alfred Taubman College of Architecture and Urban Planning, for which he had provided the lead gift. Recently the Taubman Health Sciences Library which he had supported when it was built in 1980, reopened after a major renovation. His philanthropic legacy stretches across the university including the Taubman Medical Research Institute, the U-M Museum of Art, and the Taubman Health Care Center. He had been honored with the David B. Hermelin Award for Fundraising Volunteer Leadership and an honorary Doctor of Laws degree, and was serving as campaign vice chair of the Victors for Michigan campaign and co-chair of the U-M Health System campaign.

■ Bert Askwith (AB '31), perhaps the university's oldest donor and alumnus, passed away at 104 on the day he had planned to attend the Livingston Awards for Young Journalists ceremony in New York. A former Michigan Daily editor, Askwith supported and attended these U-M administered awards. He made gifts to areas that impacted students directly—creating a café in the undergraduate library, providing tickets to University Musical Society events for every first-year student, supporting the Michigan in Washington program and the mid-career journalists of the Knight-Wallace Fellows program at the U-M, and establishing the Benny Friedman Fellowship in Sports to honor the first Jewish captain of a major football college squad. He created the Mary Sue Coleman Endowed Fund for the Raoul Wallenberg Fellowship to support students inspired by the legacy of Wallenberg. And, motivated by his grandson's struggle with food allergies, he created a fund for allergy and asthma research in the School of Public Health and at the Mary H. Weiser Food Allergy Center.

We will miss these two friends who believed so passionately in the University of Michigan.

Sincerely,

Jerry A. May
Vice President for Development

Academics

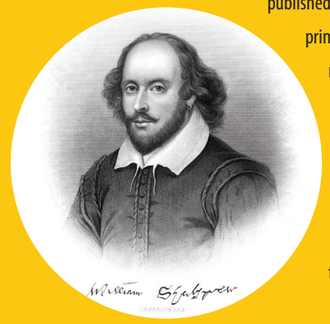
Egyptian jackal gods, business leadership programs, digital Shakespeare, and more.

"DEATH DOGS" AT KELSEY

In the first exhibition of its kind, the Kelsey Museum of Archaeology brought together artifacts from the 1920s and '30s excavations in Egypt, as well as selections from U-M's papyrology collection (the largest in North America), to present "Death Dogs: The Jackal Gods of Ancient Egypt. "The exhibit explored the mysterious ancient Egyptian jackal-headed gods associated with death and the afterlife, and featured Anubis, embalmer and guide to the dead; Wepwawet, opener of the ways to the afterlife; and Duamutef, son of Horus, protector of the canopic jar containing the stomach and protector of the East. The exhibition featured more than 40 artifacts, many never before displayed to the public, and an assemblage of modern toys, games, album art, and other manifestations of Egyptian jackal gods in pop culture today.

U-M MAKES SHAKESPEARE AVAILABLE ONLINE

A partnership between the U-M Library, the University of Oxford's Bodleian Libraries, and Ann Arbor-based ProQuest is making the texts of the first printed editions of Shakespeare, Chaucer, Milton, and other early English books available online. The texts represent a significant portion of the total output of English-language work published during the first two centuries of printing in England. More than 25,000 manually transcribed texts from 1473 to 1700—including more than 5,600 from the U-M—have already been made public. Another 40,000-plus texts are planned for release into the public domain by the end of the decade.



$2 MILLION GIFT ESTABLISHES NEW CHAIR FOR THAI BUDDHISM

A $2 million gift will establish the Thai Professorship of Theravada Buddhism, further enhancing one of the largest Buddhist studies programs in North America. The professorship is believed to be the first such chair in the world. The gift was made possible by Amnuay Viravan, former deputy prime minister, finance minister, and foreign minister of Thailand, with matching support from the Crown Property Bureau of the Ministry of Finance of Thailand.

MICHIGAN ROSS ANNOUNCES CREATION OF SANGER LEADERSHIP CENTER

A $20 million gift to the Ross School of Business from Stephen W. and Karen Sanger will create the Sanger Leadership Center, which will incorporate and expand on the current activities of the Ross Leadership Initiative and Leaders Academy. The Center will be a resource for Ross students, providing them with personalized feedback and coaching. It will also be a resource for Ross faculty who are developing cutting-edge ideas and leadership practices. Stephen W. Sanger (MBA '70) is the retired chairman and CEO of General Mills. During his tenure, the company's sales more than doubled, and earnings and market capitalization tripled. General Mills was consistently recognized for its innovative workplace practices and strong commitment to corporate responsibility. The Sangers' gift is part of the $4 billion Victors for Michigan campaign.

U-M RECEIVES $4 MILLION GRANT FOR EDUCATION RESEARCH TRAINING

A $4 million federal grant will establish a predoctoral research training program in education sciences. The grant, from the US Department of Education's Institute of Education Sciences, unites the School of Education, Ford School of Public Policy, and LSA's Department of Economics to train doctoral students in conducting research to the Institute's standards. Through apprenticeships, fellows will be trained to estimate the causal effects of educational policies on student outcomes across a broad array of topics. Fellowships range from three to four years; each fellow receives an annual $30,000 stipend plus full tuition and fringe benefits.

Student Profile

There's a reason *Forbes* named Ann Arbor "Most Educated City in America."

NEW PROGRAMS

The Weinberg Institute for Cognitive Science is offering a new certificate program for eligible PhD and master's degree students. The 12-credit certificate program will include cross-disciplinary courses on cognition and its intersection with other fields such as philosophy, psychology, computation, language, and neuroscience.

A new minor in intergroup relations education will enable students to develop their abilities to relate to others in inclusive and socially conscious ways. The minor is offered by the Program on Intergroup Relations, a partnership between the College of LSA and the Office of Student Life.

A new 15-credit minor in entrepreneurship aims to attract students from diverse areas of study. The new minor expands the nine-credit program, and adds to the ever-expanding number of entrepreneurship programs and activities for U-M students.

Beginning in the fall of 2015, School of Public Health students will be able to take an MPH degree in Nutritional Sciences. SPH established the Department of Nutritional Sciences in order to respond to the growing student interest and an increasing national emphasis on nutrition.

PROGRAM IN FINANCE CAREERS FOR WOMEN

A program to increase awareness about women in finance will be offered at Michigan Ross. The Och Initiative for Women in Finance is the result of a gift from Jane and Daniel Och of Scarsdale, NY, through the Jane and Daniel Och Family Foundation. Daniel Och is CEO, executive managing director, and chairman of Och-Ziff Capital Management Group LLC, which he founded in 1994; it is one of the world's largest institutional alternative asset managers. Jane Och earned her master's degree in accounting from Michigan Ross; she serves on the President's Advisory Group and the Ross Bachelor of Business Administration Advisory Committee. The Ochs' gift is part of the $4 billion Victors for Michigan campaign. The couple's previous philanthropy to U-M includes support for the expansion and renovation of Michigan Ross.

David Moore

ENGINEERING STUDENT NAMED 27TH U-M RHODES SCHOLAR

David Moore became the 27th U-M student—and third student-athlete—to win a Rhodes Scholarship, which covers tuition and expenses for two years at the University of Oxford in England. Moore earned a bachelor's degree in mechanical engineering in 2014. He was captain of the 2013 national championship men's swim team and served as community service chair for the Student Athlete Advisory Council. Moore is a three-time Big Ten Distinguished Scholar and the recipient of the Big Ten's Postgraduate Scholarship. At Oxford, he will complete master's degrees in both computer science and business.

U-M TO HELP LEAD $5 MILLION STEM PROGRAM

In an effort to drive educational reform in the STEM (science, technology, engineering, and math) fields, the College of Engineering is co-leading a national program that will give students research experience, maximizing benefits for both them and their professors. A $5 million grant from The Leona M. and Harry B. Helmsley Charitable Trust has established the Vertically Integrated Projects consortium—a group of 15 universities, including several that primarily serve underrepresented and nontraditional students. Rather than typical lab assignments that last only for a semester, student teams work closely with faculty research groups for a long time—perhaps most of a student's undergraduate career. The consortium expands a program that has been underway at several universities, including U-M, for about a decade.

2014 FALL TERM ENROLLMENT

	Undergraduate	Graduate/Professional	Total
ANN ARBOR	28,395	15,230	43,625
DEARBORN	7,374	1,819	9,193
FLINT	7,078	1,496	8,574
ALL CAMPUSES	42,847	18,545	61,392

2014-15 DEGREES GRANTED

	Undergraduate	Graduate/Professional	Total
ANN ARBOR	7,091	6,767	13,858
DEARBORN	1,292	625	1,917
FLINT	1,231	437	1,668
ALL CAMPUSES	9,614	7,829	17,443

U-M granted 9,614 undergraduate degrees in 2014-15

Global

Global engagement in 100+ countries around the world.

SOAP AND HOPE

In 2013, when Erin Zaikis was in Thailand volunteering with the Jewish aid group Justifi, she noticed that the schoolchildren she met did not wash their hands after using the bathroom. Talking with them, she discovered that many had never washed their hands with soap; some had never seen it.

The 2010 Ford School of Public Policy graduate knew that 3.5 million children die of diarrhea and respiratory diseases every year, and that many of those deaths could be prevented by simple hand-washing. Back in New York, and with the help of Michigan Ross alumni, Zaikis founded Sundara, a nonprofit group that recycles and distributes hotel soaps. Partnering hotels provide about 100 lbs. of discarded soap each week, which Sundara then collects, sanitizes, and recycles. In addition to distributing the soap itself, Sundara also holds workshops on hygiene, leadership, and public speaking.

U-M jumps to #6 with more than 2,300 students studying abroad

OPEN DOORS 2014 REPORT

NEW WALLENBERG FELLOW STUDYING CONDITIONS IN REFUGEE CAMPS

The 2015 Raoul Wallenberg Fellow, Bjørnar Haveland, is using his fellowship to study ways that architecture can improve the quality of life in refugee camps in Lebanon and Kenya. Established three years ago, the Wallenberg Fellowship is awarded each spring to an exceptional graduating senior at U-M who is committed to service and the public good.

"[Wallenberg] was never afraid of jumping into unknown things, taking opportunities, and exploring," Haveland said. "Taking an interest and going for it, seeing where it will take you, even though you don't have a clear idea where it will take you."

POLIO AND PREVENTING ITS REEMERGENCE

Using disease-transmission models, U-M graduate research fellow Micaela Martinez-Bakker and co-authors Aaron King and Pejman Rohani of the U-M Department of Ecology and Evolutionary Biology, demonstrate that silent transmission of poliovirus could continue for more than three years with no reported cases. The new findings were published June 19 in the open access journal PLOS Biology in a study titled "Unraveling the Transmission Ecology of Polio."

The number of US polio cases peaked in 1952 at 57,000. Three years later, mass inoculations with Jonas Salk's vaccine began after clinical trials run by U-M epidemiologist Thomas Francis, Jr. showed the vaccine to be "safe, effective, and potent."

THE SCIENCE—AND BUSINESS—OF WINE

Michigan Ross students traveled from Santiago to one of the country's major wine-growing regions, where they talked to families who owned small vineyards. Ross students also learned about the importance *of terroir* (soil). The trip enabled the students to learn about the business aspects of winemaking as well.

UMAPS PROGRAM BRINGS AFRICAN SCHOLARS TO CAMPUS

Each year, the U-M African Presidential Scholars program (UMAPS) brings a group of early-career African faculty to U-M for four to six months to do research, write, take classes, give talks, work with mentors, and expand their professional networks. U-M is the only major Western university that has such a program for African scholars from such a wide variety of fields: the academics in this year's group have interests that range from distance learning and midwifery to water scarcity and the development of mining towns.

FULBRIGHT GRANTS

Kelicia Hollis, who is researching how Chinese students prepare to study abroad, is one of 28 U-M students receiving Fulbright grants this year—more than any other public university, and second overall only to Harvard.

Health System

Excellence in medical education, patient care, and research.

TAUBMAN HEALTH SCIENCES LIBRARY OPENS

After a $55 million renovation, the 35-year-old Taubman Health Sciences Library building on the U-M medical campus has emerged as a new kind of facility. The 143,000-square-foot, all-digital, light-filled, dynamic learning space was designed for future physicians, scientists, and other health professionals. It now serves as the central learning and clinical skills training site for U-M's medical students.

Just as healthcare has gone from paper to digital systems, so have library services. U-M's 518,942-volume print health sciences collection now resides off campus. "Today's library can be anywhere, given technology, yet there's still a desire for a physical location facilitating collaboration, study, and learning," says Jane Blumenthal, associate university librarian and THSL director. "We continue our 150-year tradition of medical information expertise to serve U-M and beyond."

Students can write on erasable walls and tables to help facilitate discussions and teamwork. There's supportive technology infused in every element, and well-crafted spaces to lounge and relax, while students take a break and connect with each other.

FOOD ALLERGY CENTER RENAMING HONORS MARY WEISER

As chair of the U-M Food Allergy Center's advisory board—and the mother of a child with severe food allergies—Mary Weiser has been a passionate and tireless advocate for sufferers of food allergies.

To honor her advocacy, the Center will now be named the Mary H. Weiser Food Allergy Center. Ambassador Ronald N. Weiser (BBA '66) and Eileen L. Weiser (MMus '75) are directing $9.5 million from their $50 million campaign contribution to the Center. In addition, Mary and her husband Marc A. Weiser (BSE '95) (MBA '00) will provide $500,000, bringing the family's total gift to $10 million. The Center plans to use this gift to perform cutting-edge research into the pathogenesis and treatment of food allergy and become a national center for information and public policy surrounding food.

UMHS provides more than **$429M** worth of community benefits each year

ADULT EMERGENCY CRITICAL CARE CENTER OPENS

At the UMHS Emergency Department, the most critical patients will now be able to go straight to a new area designed just for them. The Joyce and Don Massey Family Foundation Emergency Critical Care Center, or Massey EC3, will be among the first of its kind in the United States, delivering optimal care from the moment of arrival through the first crucial hours.

With five resuscitation/trauma bays and nine patient rooms, the Massey EC3 provides the room and technology UMHS staff needs to provide advanced care for health crises such as strokes, sepsis, hemorrhages, traumatic brain injury, cardiac arrest, overdoses, and acute lung injury.

The Massey EC3 will help UMHS meet a growing demand for emergency critical care, which has risen 24 percent in five years. Through close partnerships between U-M emergency teams and teams in U-M's six specialized adult intensive care units, it will ensure a smoother transition to the next phase of care.

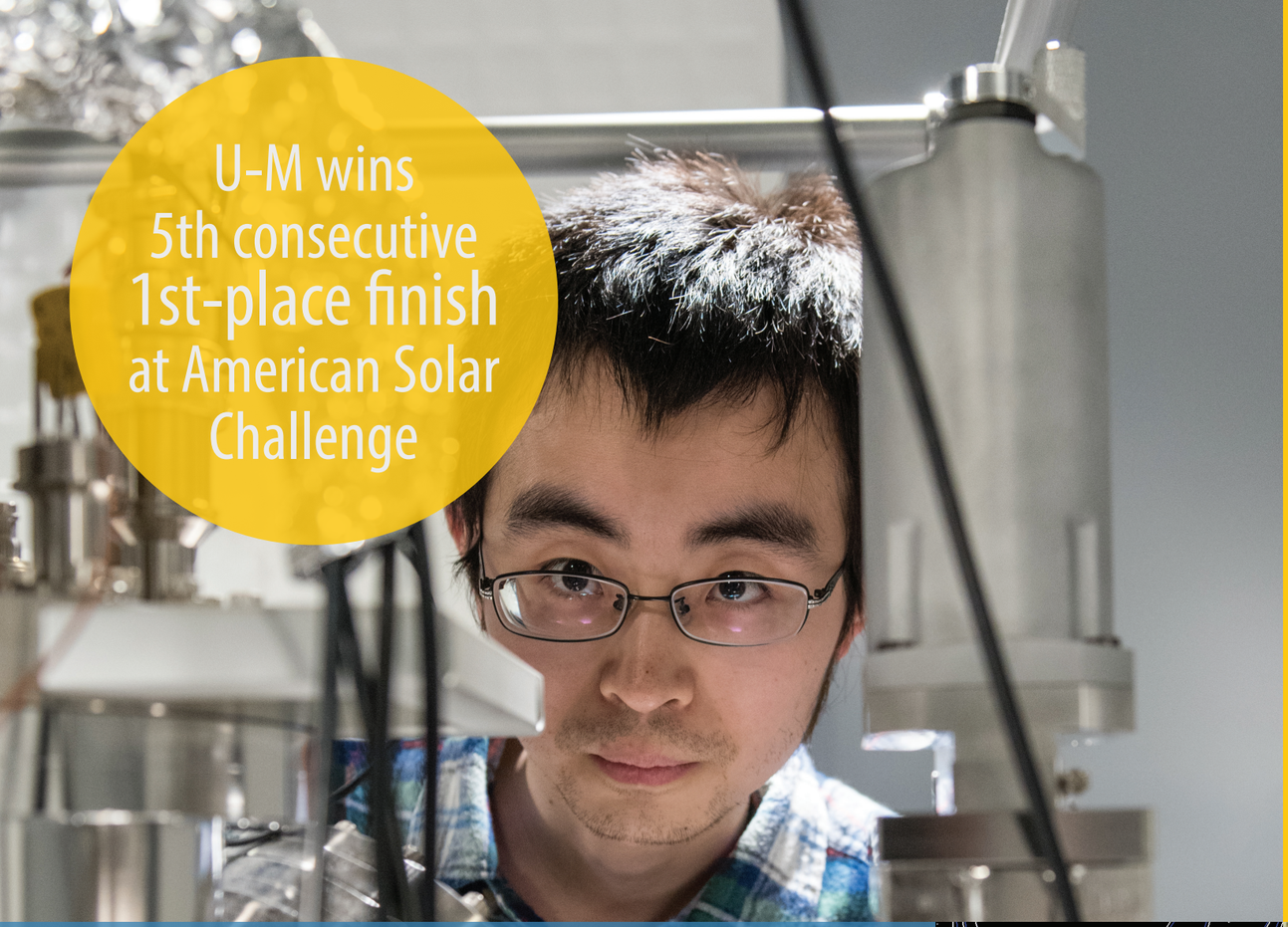
The new 7,800-square-foot unit was designed by architectural firm Niagara Murano.

ACCESS TO CARE GROWS WITH $10 MILLION GIFT TO FRANKEL CARDIOVASCULAR CENTER

A $10 million bequest from New York City-based philanthropists Ken and Jeanne Levy-Church will put world-class cardiovascular care within reach for today's families and future generations alike. The Ken and Jeanne Levy-Church Fund to Improve Cardiovascular Access will provide support for innovative technology, improve patient access to clinical trials, and help with expenses related to care.

The Levy-Church Fund will also jump-start development of new technologies that improve cardiovascular care, based on a history of Michigan innovation that has pioneered improved cardiac ablation to treat atrial fibrillation and less invasive methods to implant arterial and vascular stents and heart valves. More than 600 clinical studies are being performed at the U-M Frankel Cardiovascular Center.

Jeanne Levy-Church earned an undergraduate degree and an MSW at the U-M. Ken Levy-Church is also a U-M alumnus, earning advanced degrees in Russian and European history.



U-M wins 5th consecutive 1st-place finish at American Solar Challenge

HURRICANE-FORECAST SATELLITES WILL KEEP CLOSE EYES ON THE TROPICS

A set of eight hurricane-forecast satellites being developed at U-M is expected to provide insights into how and where storms suddenly intensify—a little-understood process that's becoming more crucial to figure out as the climate changes, U-M researchers say.

The Cyclone Global Navigation Satellite System—or CYGNSS, like the swan constellation—is a $173 million NASA mission that U-M is leading with Texas-based Southwest Research Institute. It's expected to launch next fall.

Research

Continuing the commitment to research and discovery.

U-M SIGNS ROYALTY AGREEMENT FOR GAUCHER DISEASE DRUG

U-M signed an agreement with PDL BioPharma Inc. to sell a portion of its royalty interest in Cerdelga (eliglustat) capsules, a first-line oral treatment for adults with Gaucher disease type 1. The university granted a license to Genzyme Corp. to develop the drug, which received Federal Drug Administration approval in August.

Gaucher disease is an inherited disorder in which lipid-engorged cells amass in many of the body's organs and tissues, affecting approximately 10,000 patients worldwide.

"Cerdelga represents the first chemical entity invented at U-M to achieve FDA approval and illustrates the societal benefits of transferring discoveries from university research," said Ken Nisbet, U-M associate vice president for research-tech transfer. The drug was developed by U-M's Dr. James Shayman and Dr. Norman Radin in 2000.

"WEARABLE TECH" FOR DISEASE MONITORING

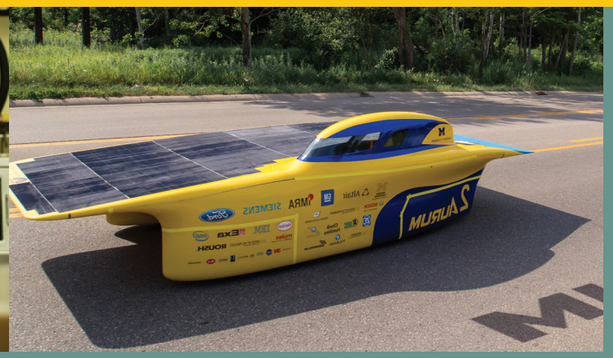
A new wearable vapor sensor being developed at U-M could one day offer continuous monitoring for patients with diseases like diabetes, high blood pressure, anemia, and lung disease.

The new sensor, which can detect airborne chemicals exhaled or released through the skin, would likely be the first wearable to pick up a broad array of chemical, rather than physical, attributes.

U-M researchers are working with the National Science Foundation's Innovation Corps program to move the device from the lab to the marketplace. The researchers say their device is faster, smaller, and more reliable than its counterparts, which today are much too big to be wearable.

SOLAR CAR DEFENDS NATIONAL TITLE

U-M's national champion Solar Car Team again won the American Solar Challenge—its fifth consecutive first-place finish in the 1,700-mile contest. Michigan raced against 22 other teams of college students that had built their own solar-powered electric vehicles. The American Solar Challenge race crew is composed of more than 100 students from across campus. Major sponsors include Ford, General Motors, IMRA, Michigan Engineering, NYK, Qatar Airways, and Siemens PLM Software.



HEAT-CONDUCTING PLASTIC DEVELOPED AT U-M

Plastics are inexpensive, lightweight, and flexible, but because they restrict the flow of heat, their use is limited in technologies like computers, smartphones, cars, and airplanes. Now, a U-M research team has made a plastic blend that casts away heat 10 times better than its conventional counterparts, which could lead to light, versatile, metal-replacement materials that make possible more powerful electronics or more efficient vehicles.

The team has devised a way to link long polymer chains of a plastic called polyacrylic acid with short strands of another called polyacryloyl piperidine. The new blend relies on hydrogen bonds that are 10 to 100 times stronger than the forces that loosely hold together the long strands in most other plastics. The research represents a critical step in the understanding of how to engineer plastics.

ASSESSING THE IMPACT OF FRACKING

A draft report addressing the potential impact of hydraulic fracking in Michigan was released in February by U-M's Graham Sustainability Institute. It is the result of a collaboration between Graham and other U-M units including the Energy Institute, Erb Institute, and the Risk Science Center.

The report analyzes Michigan-specific options in the areas of public participation, water resources, and chemical use. Options discussed include more extensive requirements for information about chemical use and water quality, new ways to manage wastewater disposal from hydraulic fracking wells, additional options for water-quality monitoring, requiring well operators to prepare emergency response plans before drilling, increasing public participation in decisions related to hydraulic fracturing, and updating the management of water withdrawals.

PLANET BLUE AMBASSADORS 2.0 LAUNCHED

Since the Program's launch in 2013, more than 2,000 U-M faculty, staff, and students have become certified Planet Blue Ambassadors, completing more than 20,000 environmental actions. An upgraded version of the Planet Blue Ambassadors (PBA) online training tool now makes it possible for users to make pledges and track success in a new state-of-the-art dashboard.

"Our Planet Blue initiative unifies all of U-M's sustainability work—spanning research, education, and campus life," said U-M President Mark Schlissel. "The PBA online training tool helps us better understand and manage our daily actions to better protect our environment and help U-M reach its sustainability goals."

Administered by the Graham Sustainability Institute, PBA supports the university's goal of investing in sustainability culture programs that educate the community, track behavior, and report on progress over time. It offers an engaging and easy way for the U-M community to integrate sustainability into their professional and personal lives.

Planet Blue

Greening the campus and the world.

ISR GOLD LEED CERTIFICATION

The newly constructed Thompson Street addition to the Institute for Social Research (ISR) building has received a LEED Gold certification from the U.S. Green Building Council. The certification puts the ISR addition in a select group of U-M buildings awarded such status, including the Dana Building, South Hall, the Crisler Center expansion, and the Michigan Memorial Phoenix Laboratory addition. The project was funded by the National Institutes of Health, U-M, and ISR.

The use of local building materials contributed to the ISR project's high LEED ratings: nearly 37 percent of the total material value was made, or extracted, from within 500 miles, which exceeds the LEED guideline of 10 percent. The creation of a green roof, with seven varieties of native plants, is helping to moderate heating and cooling demands on an ongoing basis. Additionally, only low-VOC paints, flooring, adhesives, and furniture were used.

COURSE ENCOURAGES STUDENTS TO HAVE AN IMPACT ON CAMPUS SUSTAINABILITY

In the process of teaching Environ 211: Social Sciences and Environmental Problems over the years, Associate Professor Michaela Zint learned that the students are less interested in the grand idea of making a difference and more in rolling up their sleeves to solve a local problem. Now, after revisions and research on three semesters' worth of class outcomes—and aided by a Third Century Initiative grant—Zint and her students will have a chance to tackle campus issues head on, and address sustainability challenges through a social science lens.

"Being able to involve students in real-world challenges is awesome," says Keith Soster, Michigan Dining's director for student engagement. "Sometimes the ideas won't come to fruition right away, but to be able to sit and listen to what they had to say, like on fair trade, was really helpful."

CAMPUS LABS CUT ENERGY, AVOID $1.5M IN ENERGY COSTS

Sustainable practices in U-M campus laboratories have resulted in an estimated 10 percent energy reduction and avoidance of $1.5 million in energy costs.

The "Shut the Sash" awareness campaign (which reminds users to close the transparent barrier on chemical fume hoods when not in use) is just one of the efforts in the broader initiative to create more sustainable operations in university labs through the Sustainable Labs program offered by the Office of Campus Sustainability.

One hundred labs and more than 6,000 students, faculty, and staff have participated in the program, which promotes best practices for safer and greener laboratory operations. Since the launch of the Sustainable Labs program in fall 2011, participation has grown from seven labs to 100.

The Sustainable Labs program recently earned the 2014 "Go Beyond Award" from the International Institute for Sustainable Laboratories and the Michigan Governor's Green Chemistry Award in 2013.

An estimated **10% energy reduction** in campus labs reduced energy costs by $1.5 million

URC CONTRIBUTED $16.8 BILLION TO MICHIGAN ECONOMY

The University Research Corridor (URC) contributed $16.8 billion to Michigan's economy, according to the 8th Annual Economic Impact & Benchmark Report from East Lansing-based Anderson Economic Group. That figure was up from $16.6 billion the previous year and $12.9 billion reported in the first report published in 2007.

An alliance of Michigan State University, the University of Michigan, and Wayne State University, URC focuses on increasing economic prosperity and connecting Michigan to the world. Since 2002, the three URC universities have cultivated 173 startup companies. For every dollar the state invested in the three URC universities, it saw $21 in economic benefits.

Community

Learning isn't just for the classroom.

FOOZEL APP HELPS CALM KIDS IN CLINIC

Going to the hospital, even for a quick doctor's appointment, can be a frightening experience, especially for young children. Now, thanks to a partnership between the University of Michigan Credit Union and the U-M Health System, kids have a new activity to help them pass the time.

"Foozel" is an interactive game for children and families, inspired by the stunning fossil floor at C.S. Mott Children's Hospital created by internationally acclaimed artist and U-M alumna Michele Oka Donor. It takes users on a virtual journey back in time to the prehistoric era of the dinosaurs. Through the app's adventure, the fossil floor breaks and transforms into a starry sky and leads the user through several games to track down fossils, repair the floor, and return to present day.

There's a coloring book that goes with it, keeping kids occupied and actually excited to go to the doctor. The app and coloring book were both designed and developed by U-M students and alumni.

GIVE KIDS A SMILE 2015

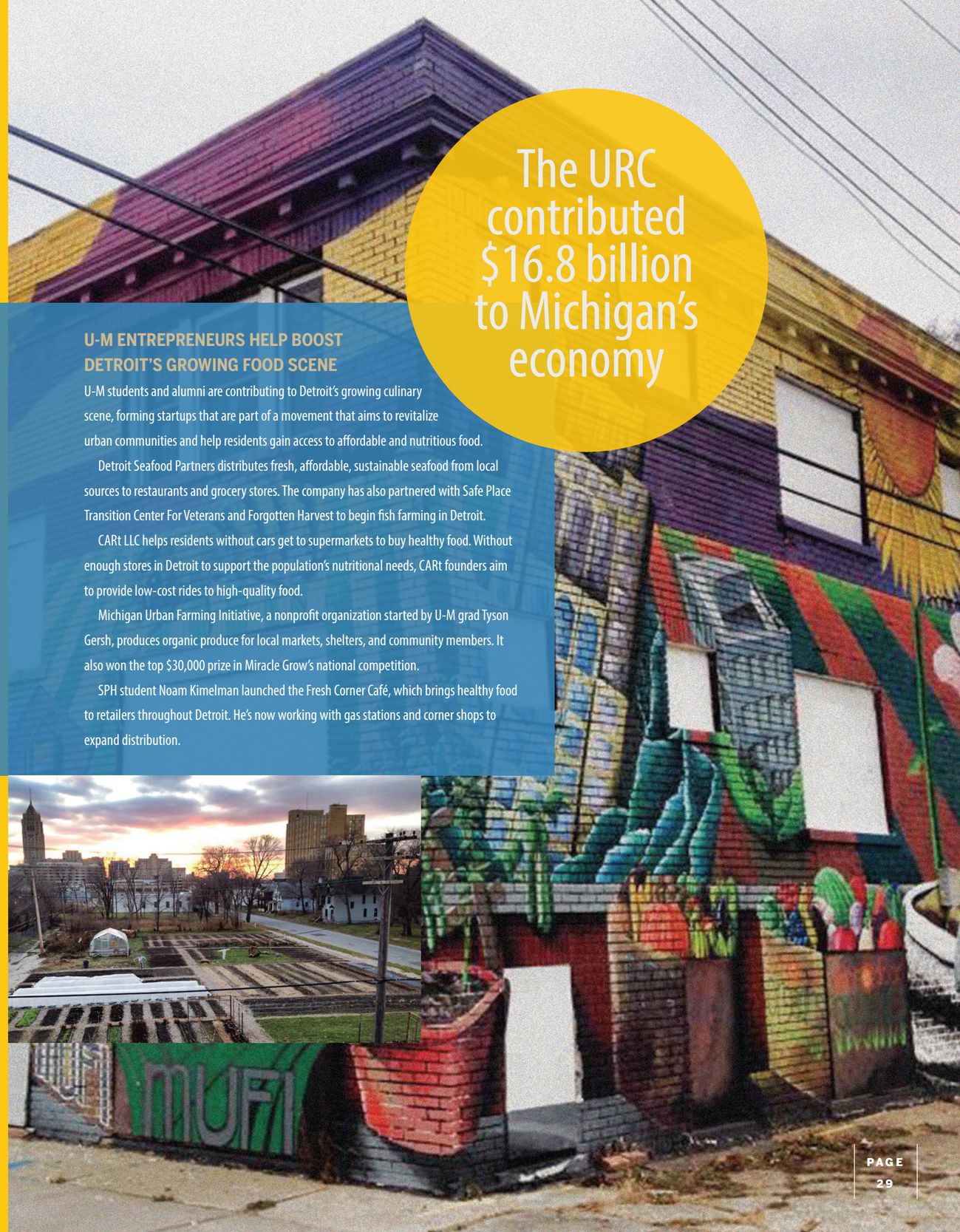
After months of planning and coordination, students from the U-M School of Dentistry—with help from several clinical faculty members and private-practice dentists—provided almost $10,000 worth of free dental care during this year's Give Kids a Smile program. The annual event is a part of the American Dental Association's program, and was sponsored by the Washtenaw District Dental Society.

In the waiting room, at tables covered with coloring books and other kid-friendly materials, students sat with the youngsters and read them stories and colored with them. "Toothy," the Dental School's mascot, was present, and brought huge smiles to the faces of parents and kids alike.

The clinic saw 38 children, and provided a range of treatment from exams and prophies to extractions and pulpotomies. Patients from a wide range of backgrounds were seen. About 125 dental and dental hygiene students volunteered at the event.

NATIVE AMERICAN TEENS EXPLORE SCIENCE AND CULTURE AT CAMP KINOMAAGE

Camp Kinomaage is a summer camp for Native American middle school students from Michigan tribes. Students who participate in the weeklong, hands-on residential program—located at U-M's Biological Station near Pellston—explore science and culture and engage in field experiences. Cultural ties are also a dominant theme: students have the opportunity to interact with Native American elders from surrounding tribes, and are also taught the Ojibwe language by faculty and staff from U-M's Native American Studies program.



The URC contributed $16.8 billion to Michigan's economy

U-M ENTREPRENEURS HELP BOOST DETROIT'S GROWING FOOD SCENE

U-M students and alumni are contributing to Detroit's growing culinary scene, forming startups that are part of a movement that aims to revitalize urban communities and help residents gain access to affordable and nutritious food.

Detroit Seafood Partners distributes fresh, affordable, sustainable seafood from local sources to restaurants and grocery stores. The company has also partnered with Safe Place Transition Center For Veterans and Forgotten Harvest to begin fish farming in Detroit.

CARt LLC helps residents without cars get to supermarkets to buy healthy food. Without enough stores in Detroit to support the population's nutritional needs, CARt founders aim to provide low-cost rides to high-quality food.

Michigan Urban Farming Initiative, a nonprofit organization started by U-M grad Tyson Gersh, produces organic produce for local markets, shelters, and community members. It also won the top $30,000 prize in Miracle Grow's national competition.

SPH student Noam Kimelman launched the Fresh Corner Café, which brings healthy food to retailers throughout Detroit. He's now working with gas stations and corner shops to expand distribution.

SOFTBALL NETS 8TH STRAIGHT CONFERENCE TITLE

The softball team produced a 60-8 overall record, the program's eighth straight Big Ten Conference title, a Big Ten Tournament crown, and a runner-up finish at the NCAA Women's College World Series under 31-year head coach Carol Hutchins. U-M boasted five All-Americans, including first teamers Sierra Romero and Kelly Christner, while posting 16 victories against top-25 teams. With 1,432 career victories, Hutchins enters the 2016 season just 25 victories shy of becoming the all-time winningest college softball coach in the country.

262 Academic All-Big Ten Conference

1 National Championship Team

8 Academic All-Americans

100% All 14 U-M men's varsity athletic teams recorded perfect APR scores

IN THE CLASSROOM

Michigan was the only school to achieve exemplary Academic Progress Rate (APR) marks from the NCAA in football (above 990), men's basketball (995 and above), and women's basketball (995 and above) in the latest multi-year APR report. Additionally, for the most recent year reported, all 14 U-M men's varsity teams recorded perfect scores of 1,000, while 10 of the 15 women's varsity teams also earned perfect scores. Further, Michigan is the only Big Ten Conference institution to earn NCAA Public Recognition awards in both football and men's basketball, with men's basketball now having earned the award for four straight years. U-M set an institutional record in 2014–15 with 10 Public Recognition awards for ranking among the top 10 percent of their respective sports in the most recent multi-year APR report.

Athletics

Continuing a 150-year tradition of excellence.

IN THE COMMUNITY

Michigan student-athletes worked in collaboration with numerous local nonprofit organizations. Student-led initiatives included weekly visits with patients at C.S. Mott Children's Hospital, MSHARE visits to local elementary schools, Michigan Buddies mentoring program within the Ann Arbor Public School System, "Lunch with a Wolverine" for elementary school children, and Adopt-A-Classroom for providing positive role models.

CONFERENCE NEWS

A total of 32 student-athletes earned first-team All-America honors during the year. Forty-four student-athletes received All-Big Ten first team honors; 25 student-athletes won individual conference titles. A total of 262 student-athletes were named Academic All-Big Ten Conference up from 235 in 2013–14. Men's swimmer Justin Glanda (Business Administration) and women's basketball student Nicole Elmblad (Biopsychology, Cognition, and Neuroscience) were U-M's recipients of the Big Ten Medal of Honor.

4 Conference Freshmen of the Year

3 Conference Coaches of the Year

57 Big Ten Distinguished Scholars

5 Conference Champion Teams

UM-Dearborn students graduate with the 2nd-lowest student debt of any public university in the state

24% Students of color

108 Birth countries

Dearborn

A diverse student body on a vibrant campus.

LITTLE REAPPOINTED AS CHANCELLOR

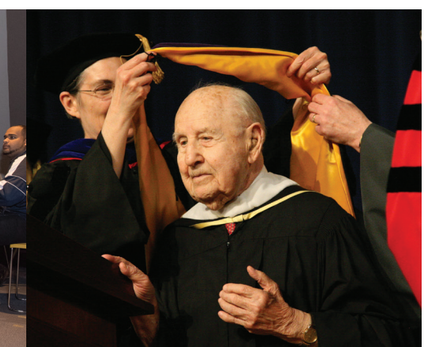
Daniel E. Little will serve a fourth term as chancellor. A professor of philosophy in the College of Arts, Sciences, and Letters and professor of sociology at U-M in Ann Arbor, he becomes the longest-serving chancellor in UM-Dearborn's history.

Little's tenure has been marked by remarkable growth. In 2014, enrollment reached an all-time high of more than 9,100. The College of Education, Health, and Human Services launched in 2014, offering new programs in public health, community health, and health information technology. Under his leadership, the university opened the Office of Metropolitan Engagement, launched Public Allies Metro Detroit, and was named an engaged campus by the Carnegie Foundation for the Advancement of Teaching.

UM-DEARBORN HONORED FOR CAMPUS ENGAGEMENT

The University of Michigan-Dearborn was once again recognized for its commitment to community engagement with its selection as Michigan's 2015 Engaged Campus of the Year by the Michigan Campus Compact (MiCC). The award, which is chosen by a team of national reviewers, recognizes an institution of higher education for exemplary commitment to the education of students for civic and social responsibility; genuine and sustained investment in community relationships; and a commitment to service-learning and civic engagement opportunities.

The award marks the second time this year that the university has been recognized for community engagement; in January, the Carnegie Foundation for the Advancement of Teaching announced that UM-Dearborn was a recipient of its 2015 Community Engagement Classification. The distinction—earned by only 361 campuses nationwide—recognizes the university's commitment to being deeply engaged with its larger community through teaching, learning, research, and service that makes a difference.



48% First-generation college students

43% Pell-eligible

80% Stay in Michigan following graduation

FORMER US REP. JOHN DINGELL TO WORK WITH UM-DEARBORN STUDENTS

Rep. John D. Dingell and UM-Dearborn have announced a partnership that will bring the former US congressman to campus. The partnership will offer opportunities for faculty and students to work directly with Dingell to understand, document, and share his legacy as the longest-serving member in congressional history.

Dingell will discuss his experiences with students in classes that will explore civil rights, urban agendas, and policies around labor, health, and the environment. Dingell will also work with CASL's Department of Social Sciences to promote its longstanding Washington DC-based internship program.

$12.5 MILLION GIFT WILL SUPPORT STUDENT ACCESS

The largest single gift in UM-Dearborn history will fund The Kochoff Pathway to Success Scholarship Program, which will support about 600 students with financial need in its first four years alone. The program is funded by an estimated $12.5 million gift from the estate of Arthur Kochoff.

The program will provide 40 transfer students each year with $5,000 scholarships, and will supplement the Opportunity Scholarship awards with an extra $1,000. The program is also expected to support about 50 graduate students annually.

Kochoff, who passed away in February, began his career on the assembly line at Ford Motor Company in 1939 and served as a manufacturing engineer for 49 years. Following retirement, at the age of 79, he started a new journey as a UM-Dearborn undergraduate student. He went on to earn three bachelor's degrees from the university—one in 1992 in liberal studies and two in 1996 in international studies and Hispanic studies. The university awarded him the honorary Doctor of Law degree in 2009.

SCHOOL OF MANAGEMENT RECEIVES LARGEST GIFT IN UM-FLINT HISTORY

A $2 million gift from Philip and Jocelyn Hagerman will create the Hagerman Center for Entrepreneurship and Innovation at UM-Flint's School of Management (SOM) and support the newly established Hagerman Endowed Professor of Entrepreneurship and Innovation. It's the largest gift ever received by the School.

"This will enable the School of Management to better serve our students and our community," said SOM Dean Scott Johnson. "Phil and Jocelyn Hagerman's gift is a testament to their recognition of the importance of higher education and of the transformative impact that entrepreneurship can have on the city and the region."

"Jocelyn and I believe UM-Flint is a critical and growing anchor in our community, and has been an important part of the turnaround happening in downtown Flint," said Hagerman, chairman and chief executive officer of Diplomat Pharmacy, Inc., headquartered in Flint. "We believe in the school, its leadership, and its mission. We also believe in the spirit of entrepreneurship and feel this is another way Flint and Genesee County can prosper in the coming years. Our hope in funding the Hagerman Center for Entrepreneurship and Innovation is that it will foster and expand the growth of new businesses in Flint."

Flint

New scholarships, new programs, and a community focus.

NEW CHANCELLOR'S SCHOLARSHIPS

As part of an effort to promote a "college-bound culture" and retain the Flint area's brightest talent, Chancellor Susan E. Borrego has established the Chancellor Scholar Award for top graduates at five selected area high schools. The first group of Chancellor Scholars began attending the University of Michigan-Flint this fall. The scholarship is valued at more than $9,000 each year, and will cover full tuition and fees for four years.

"Meeting these outstanding students is inspiring," said Borrego after talking with some of the scholars this summer. "We have not been competing intentionally for our local top students. It serves all of us—the students, the university, and the community—to provide an opportunity for them to complete their degree at UM-Flint. I am hopeful we will be able to expand this program to offer more full-ride scholarships to top local students."

PEDIATRIC RESIDENCY PROGRAM EARNS ACCREDITATION

The University of Michigan-Flint Pediatric Residency Program has earned accreditation from the American Board of Physical Therapy Residency & Fellowship Education. It's the first program in the state—and only the 16th in the country—to receive the designation. The university accepted its first-ever resident in the program in the fall of 2013.

The program leverages the resources of the University of Michigan system, with residents doing one year of clinical work at three sites within the U-M Hospitals & Health Centers. Residents will also get early childhood and school-based experience thanks to a partnership between the program and Pediatric Therapy Associates in Ann Arbor. The program focuses on honing research and teaching skills, too, with residents contributing to the pediatric courses at UM-Flint.

8,600 students from all over the US and 40 other countries

PHOTO BY PETER SMITH

PHOTO COURTESY OF THE GERSHWIN ARCHIVE

Newsmakers

Awards, elections, and a "genius grant."

AWARDS AND HONORS

- Kiera Feldman, Shoshana Walter, Ryan Gabrielson, and Matthieu Aikins won the 2015 Livingston Awards for Young Journalists. Judges included Christiane Amanpour from CNN and the *New York Times'* Dean Baquet
- SMTD nominated for Grammy Award for best opera recording
- Classics student Ana Guay wins Gates Cambridge Scholarship
- Student filmmaker Charlie Engelman wins $50,000 NatGeo channel contest
- Agnes Heller receives Wallenberg Medal
- Robert Axelrod awarded National Medal of Science
- LSA professor Khaled Mattawa was the winner of a MacArthur "genius grant" fellowship, and will receive a $625,000, no-strings-attached stipend. He's the translator of nine books of contemporary Arabic poetry and the author of four collections of his own poetry
- U-M faculty elected to Institute of Medicine: Gonçalo Abecasis, Carol Bradford, Eva Feldman, Mark Fendrick, Susan Murphy, and Kathleen Potempa
- U-M scientists and engineers named American Association for the Advancement of Science Fellows: Rane Curl, Gregory Dressler, Deborah Goldberg, Daniel Goldman, Tom Kerppola, Roberto Merlin, Mark Newman, and Patricia Ann Peyser
- U-M professors elected to National Academy of Inventors: Arul Chinnaiyan, Stephen Forrest, and Shaomeng Wang
- U-M researchers get Sloan fellowships: Alan Boyle, J. Alex Halderman, Prabal Dutta, Christina Aidala, Andrew Snowden, and Kai Sun
- U-M Guggenheim winners: Christiane Gruber, Howard Markel, and Eran Pichersky
- U-M professors win Carnegie fellowship: John Ciorciari and Arthur Lupia
- U-M President Mark Schlissel and Professor Philip Deloria elected to American Academy of Arts and Sciences

BLOCK M FLAG FROM SPACE COMES HOME

When NASA's spacecraft Orion went into orbit for two trips around earth last December 5 it had a stowaway on board: a flag bearing Michigan's iconic Block M. That flag came back to campus recently, and was given pride of place in the Francois-Xavier Bagnoud building, home to the department of aerospace engineering. A dedication and unveiling ceremony was held in March 2015.

NEW APPOINTMENTS

- Daniel Little reappointed UM-Dearborn chancellor
- Marschall Runge appointed new executive vice president for medical affairs
- SNRE names Daniel Brown interim dean
- Aaron Dworkin named SMTD dean
- Kevin Hegarty named executive vice president and chief financial officer
- Douglas Knerr named new UM-Flint provost
- Carol Fierke is new Rackham dean
- Vincent Groppi named new director of U-M Center for Discovery of New Medicines
- David Lam named new ISR director
- LSI names Stephen Weiss interim director

UMS AND NY PHILHARMONIC LAUNCH RESIDENCY PARTNERSHIP

The University Musical Society and the New York Philharmonic have announced a five-year residency partnership, beginning in October. It's part of a larger program that will bring three different orchestras to Hill Auditorium each season. Each residency will include multi-performance residencies, master classes and workshops, and community activities. Orchestra members will also participate in workshops, co-commissions, and co-productions in partnership with university units and community organizations.

HISTORIC GERSHWIN PIANO USED IN CONCERT

A fully restored 1933 Model A Steinway piano owned and played by George Gershwin was unveiled by the School of Music, Theatre & Dance at a free public concert in October. The piano was donated to U-M in 2013 by George Gershwin's nephew Marc, as a gesture of partnership between the Gershwin families and U-M during the creation of the U-M Gershwin Initiative.

TOM HAYDEN ARCHIVES

The man some call "the intellectual father of the 1960s" has donated his papers to the U-M. The documents from Tom Hayden, now 75, include more than 22,000 pages of FBI files detailing the 15-year surveillance of Hayden and his wife, Jane Fonda, during the Vietnam War years. Hayden, a U-M grad and a former editor of the *Michigan Daily*, gained fame as the primary author of the Port Huron Statement, the 1962 manifesto of the anti-war movement, and at the 1968 Democratic National Convention in Mayor Richard Daley's Chicago.

LIBRARY DISCOVERS UNPUBLISHED ORSON WELLES MEMOIR

Archivists at the U-M Special Collections library made an exciting discovery while unpacking boxes of materials donated to the Orson Welles collection: a rough draft of his incomplete, unpublished memoir, *Confessions of a One-Man Band*. The new materials were donated by Oja Kodar, a Croatian actress, screenwriter, and director who was Welles' partner during the final 24 years of his life.

PRESIDENTIAL INAUGURATION

In September 2014, amid a day of pageantry and celebration, Dr. Mark S. Schlissel became the 14th president of the University of Michigan. In addition to the formal installation ceremony at Hill Auditorium, Inauguration Day also included academic symposia and an informal public reception on Ingalls Mall.

The new president spoke to an audience of faculty, students, staff, legislators, and delegates from nearly 100 institutions of higher education. A call for open and civil discourse was one of three central tenets Schlissel laid out for the university. The others were "our mission as a public institution as a bedrock principle, a privilege, and a responsibility," and that U-M must be "a diverse and democratic community, open, and accessible."

Schlissel said he is committed to enhancing the university's already preeminent standing as a place where gifted scholars focus on research, teaching, and mentoring the next generation to become engaged citizens and leaders. "I am walking in new directions, and I am asking a lot of questions," Schlissel said. "More than anything, I am listening."

Major Projects

PROJECTS IN PLANNING

300 North Ingalls Building Renovation on Floors 9 and 11

Art and Architecture Building A. Alfred Taubman Wing Project

Auxiliary Services Building 1 Roofing and Air Handling Units Replacement

Central Power Plant Fire Protection System for Steam Turbines

Intramural Sports Building Renovation

Mobility Transformation Center Temporary Modular Building

North Campus Recreation Building Additions and Renovation

Nuclear Engineering Laboratory Renovation

Richard L. Postma Family Clubhouse

Robotics Laboratory

Stephen M. Ross Athletic Campus Athletics South Competition and Performance Project

Transportation Operations and Maintenance Facility

University of Michigan Hospitals and Health Centers Projects

- North Campus Research Complex Buildings 30, 35, 36, and 60, University Hospital, and University Hospital South Clinical Pathology Laboratories Relocation and Renovation
- University Hospital Communication Closet Upgrades

Weiser Hall Renovation

PROJECTS IN PROGRESS

Biological Science Building | Work started May 2015 with an estimated completion date of September 2018. Financing is from the College of LSA and the Office of the Provost.

George Granger Brown Memorial Laboratories Renovation | Work started July 2014 with an estimated completion date of September 2016. Financing is from FY11 capital outlay request to the state of Michigan, investment proceeds, the College of Engineering, and the Office of the Provost.

Central Campus Area Utility Tunnel Reinforcement | Work started April 2015 with an estimated completion date of December 2015. Financing is from utilities reserves and the general fund.

William L. Clements Library Infrastructure Improvements and Addition | Work started February 2014 with an estimated completion date of December 2015. Financing is from gifts and investment proceeds.

Dearborn Science Building and Computer Information Science Building Renovation | Work started February 2014 with an estimated completion date of September 2016. Financing is from a FY11 capital outlay request to the state of Michigan and U-M Dearborn.

Department of Intercollegiate Athletics Operations Center | Work started October 2014 with an estimated completion date of December 2015. Financing is from the Athletic Department.

East Hall Masonry Cornice and Window Soffit Repairs | Work started August 2014 with an estimated completion date of December 2015. Financing is from the general fund.

Flint William R. Murchie Science Building Renovation | Work started January 2014 with an estimated completion date of December 2015. Financing is from a FY11 capital outlay request to the state of Michigan and U-M Flint.

Eda U. Gerstacker Grove | Work started May 2015 with an estimated completion date of December 2015. Financing is from gifts and the College of Engineering.

Glen Avenue Parking Structure Elevator Replacement and Improvements | Work started August 2014 with an estimated completion date of December 2015. Financing is from parking.

Hoover Avenue Heating Plant Boiler Replacement | Work started January 2015 with an estimated completion date of December 2015. Financing is from utilities reserves.

Institute of Continuing Legal Education First Floor Renovation | Work started January 2015 with an estimated completion date of December 2015. Financing is from the Institute of Continuing Legal Education.

Clarence Cook Little Science Building Geological Sciences Laboratory Renovations | Work started April 2015 with an estimated completion date of December 2015. Financing is from the College of LSA.

Lorch Hall East Wing Second Floor Renovation | Work started April 2015 with an estimated completion date of December 2015. Financing is from the College of LSA.

Medical Sciences Research Building II Chiller Replacement and Chilled Water Interconnection to Medical Sciences Research Building III | Work started May 2015 with an estimated completion date of September 2016. Financing is from investment proceeds and the general fund.

Michigan League Roof Replacement | Work started March 2015 with an estimated completion date of December 2015. Financing is from the general fund and Student Life.

Michigan Memorial Phoenix Project Laboratory Renovations for Battery Prototype Facility | Work started January 2015 with an estimated completion date of September 2015. Financing is from the general fund.

Earl V. Moore Building Renovation and William K. and Delores S. Brehm Pavilion | Work started April 2014 with an estimated completion date of December 2015. Financing is from gifts and University Housing.

Munger Graduate Residences | Work started October 2013 with an estimated completion date of September 2015. Financing is from gifts and University Housing.

North Campus Research Complex Buildings 10 and 14 Renovations for the Institute for Healthcare Policy and Innovation | Work started July 2014 with an estimated completion date of December 2015. Financing is from the Medical School.

North Quadrangle Residential and Academic Complex Roof Repairs | Work started May 2015 with an estimated completion date of December 2015. Financing is from investment proceeds.

Horace H. Rackham School of Graduate Studies Infrastructure Improvements | Work started May 2014 with an estimated completion date of December 2015. Financing is from investment proceeds.

Stephen M. Ross School of Business Kresge Business Administration Library Renovation, Computer and Executive Education Building Demolition, Jeff T. Blau Hall, and Exterior Cladding Project | Work started April 2014 with an estimated completion date of December 2016. Financing is from gifts and investment proceeds.

School of Education Renovation | Work started December 2013 with an estimated completion date of December 2015. Financing is from investment proceeds.

School of Nursing New Building | Work started September 2013 with an estimated completion date of December 2015. Financing is from investment proceeds.

University of Michigan Hospitals and Health Centers Projects | Financing is from U-M Hospitals and Health Centers.

- **W. K. Kellogg Eye Center Auditorium Renovation |** Work started October 2014 with an estimated completion date of September 2015. Financing is from Hospitals and Health Centers and the Department of Ophthalmology.
- **C.S. Mott Children's and Von Voigtlander Women's Hospitals Renovations for Child and Adolescent Psychiatric Hospital Relocation |** Work started September 2014 with an estimated completion date of June 2016. Financing is from Hospitals and Health Centers and gifts.
- **University Hospital Fire Detection and Alarm System Update |** Work started November 2014 with an estimated completion date of September 2015.
- **University Hospital Operating Room Expansion |** Work started February 2015 with an estimated completion date of June 2016.
- **University Hospital South Medical Short Stay Unit |** Work started January 2015 with an estimated completion date of September 2015.
- **University Hospital and University Hospital South Renovations for Magnetic Resonance Imaging Suite Expansion |** Work started April 2015 with an estimated completion date of September 2016.

Varsity Drive Building Dry Collections Relocation Renovations | Work started May 2014 with an estimated completion date of October 2015. Financing is from the College of LSA.

West Hall Roof Replacement | Work started December 2014 with an estimated completion date of December 2015. Financing is from the general fund.

West Quadrangle and Michigan Union-Cambridge House Renovation | Work started May 2014 with an estimated completion date of September 2015. Financing is from University Housing.

Wolverine Tower Exterior Repairs | Work started October 2014 with an estimated completion date of December 2015. Financing is from investment proceeds.

Yost Ice Arena Ice System Improvements | Work started February 2015 with an estimated completion date of September 2015. Financing is from the Athletic Department.

Construction projects with budgets greater than $10 million will be designed to achieve a Leadership in Energy and Environmental Design certification

PROJECTS COMPLETED

George Granger Brown Memorial Laboratories Mechanical Engineering Addition | Completed July 2014. Financed by the College of Engineering, gifts, investment proceeds, and a construction grant from the National Institute of Standards and Technology.

Central Campus Area Utility Tunnel Reinforcement | Completed October 2014. Financed by utilities reserves.

Central Power Plant Feed Water System Deaerator Upgrade | Completed November 2014. Financed by utilities reserves.

William W. Cook Legal Research Library Attic Insulation and Ninth Floor Roofing Replacement | Completed August 2014. Financed by the general fund.

Dearborn Academic Support Center Renovations | Completed December 2014. Financed by UM-Dearborn.

Dearborn Engineering Laboratory Building Expansion for Bioengineering | Completed August 2014. Financed by UM-Dearborn.

Dearborn Science Building Computing Wing Renovations | Completed December 2014. Financed by UM-Dearborn.

Dental Building to Palmer Commons Chilled Water Interconnection | Completed April 2015. Financed by investment proceeds.

James and Anne Duderstadt Center Roof Replacement | Completed December 2014. Financed by the general fund.

New Field Hockey Team Center, New Field Hockey Stadium, and Ocker Field Improvements | Completed July 2014. Financed by the Athletic Department and gifts.

Flint Northbank Center United States Drug Enforcement Administration Lease Buildout | Completed April 2015. Financed by UM-Flint and United States Drug Enforcement Administration.

Harlan Hatcher Graduate Library Life Safety Upgrades | Completed September 2014. Financed by investment proceeds.

W. K. Kellogg Eye Center Renovation for Clinical Research | Completed May 2015. Financed by the Medical School.

Elmer D. Mitchell Field Improvements | Completed June 2015. Financed by investment proceeds.

Mobility Transformation Facility | Completed December 2014. Financed by the College of Engineering, the Office of Research, the University of Michigan Transportation Research Institute, the Office of the Provost, and a grant from the Michigan Department of Transportation.

North Campus Research Complex Building 10 Air Handling Unit Replacement | Completed October 2014. Financed by the Medical School.

North Campus Research Complex Building 28 Renovations for the College of Engineering | Completed November 2014. Financed by the College of Engineering and the Medical School.

North Campus Research Complex Building 80 Switchgear Replacement | Completed October 2014. Financed by the Medical School.

Pierpont Commons Café Renovation | Completed August 2014. Financed by investment proceeds and Student Life.

Power Center for the Performing Arts Improvements | Completed June 2015. Financed by investment proceeds.

President's Residence Infrastructure Renovation| Completed August 2014. Financed by investment proceeds.

Harrison M. Randall Laboratory Air Handling Upgrades | Completed September 2014. Financed by the College of LSA and the general fund.

Regional Chiller Plant for South and West Quadrangles and the Michigan Union | Completed July 2014. Financed by University Housing.

South Quadrangle Renovation | Completed July 2014. Financed by University Housing.

A. Alfred Taubman Health Sciences Library Renovation | Completed June 2015. Financed by the Medical School.

University of Michigan Hospitals and Health Centers Projects | Financed by U-M Hospitals and Health Centers.

- **Domino's Farms Leasehold Improvements for Wound Care Program Expansion |** Completed September 2014.
- **C.S. Mott Children's and Von Voigtlander Women's Hospital Shell Space Utilization for New Operating Room |** Completed December 2014.
- **A. Alfred Taubman Health Care Center Department of Emergency Medicine Renovation |** Completed April 2015.
- **University Hospital Adult Emergency Department Critical Care Unit Renovation |** Completed May 2015.
- **University Hospital and A. Alfred Taubman Health Care Center Fire Alarm Upgrades |** Completed September 2014.
- **University Hospital South Renovation for Electroencephalography and Electromyohgraphy Clinics Relocation |** Completed October 2014.

West Hall Renovation for the College of Literature, Science, and the Arts | Completed September 2014. Financed by the College of LSA.

Management Responsibility for Financial Statements

OFFICE OF
BUSINESS & FINANCE
UNIVERSITY OF MICHIGAN

October 15, 2015

The management of the University of Michigan (the "University") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The financial statements, presented on pages 62 to 87, have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments and estimates by management.

The consolidated financial statements have been audited by the independent accounting firm PricewaterhouseCoopers LLP, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Regents. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit opinion is presented on pages 43-44.

The University maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the University's management and Board of Regents regarding the preparation of reliable published financial statements. Such controls are maintained by the establishment and communication of accounting and financial policies and procedures, by the selection and training of qualified personnel, and by an internal audit program designed to identify internal control weakness in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls.

The Board of Regents, through its Finance, Audit and Investment Committee, is responsible for engaging the independent auditors and meeting regularly with management, internal auditors, and the independent auditors to ensure that each is carrying out their responsibilities and to discuss auditing, internal control, and financial reporting matters. Both internal auditors and the independent auditors have full and free access to the Finance, Audit and Investment Committee.

Based on the above, I certify that the information contained in the accompanying financial statements fairly presents, in all material respects, the financial condition, changes in net position and cash flows of the University.

Kevin P. Hegarty
Executive Vice President and Chief Financial Officer

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Independent Auditor's Report

pwc

The Regents of the University of Michigan

We have audited the accompanying financial statements of the University of Michigan (the "University"), as of and for the years ended June 30, 2015 and 2014 and the related notes to the financial statements which collectively comprise the statements of net position and the related statements of revenues, expenses and changes in net position and of cash flows.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP, One Detroit Center, 500 Woodward Avenue, Detroit, MI 48226
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OPINION

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

The accompanying management's discussion and analysis on pages 45 through 61 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

October 15, 2015

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Management's Discussion and Analysis
(UNAUDITED)

INTRODUCTION

The following discussion and analysis provides an overview of the financial position of the University of Michigan (the "University") at June 30, 2015 and 2014 and its activities for the three fiscal years ended June 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The University is a comprehensive public institution of higher learning with over 61,000 students and approximately 7,700 faculty members on three campuses in southeast Michigan. The University offers a diverse range of degree programs from baccalaureate to post-doctoral levels through 19 schools and colleges, and contributes to the state and nation through related research and public service programs. The University also has a nationally renowned health system which includes three hospitals, 40 health centers, more than 120 outpatient clinics, the University's Medical School and Michigan Health Corporation, a wholly-owned corporation created to pursue joint venture and managed care initiatives. The University, in total, employs over 45,000 regular employees and approximately 13,000 temporary staff.

The University consistently ranks among the nation's top universities by various measures of quality, both in general academic terms, and in terms of strength of offerings in specific academic disciplines and professional subjects. Research is central to the University's mission and a key aspect of its strong reputation among educational institutions. The University is widely recognized for the breadth and excellence of its research enterprise as well as for the exceptional level of cooperation across disciplines, which allows faculty and students to address the full complexity of real-world challenges. The University's Health System also has a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the nation.

FINANCIAL HIGHLIGHTS

The University's financial position remains strong, with assets of $18.5 billion and liabilities of $5.2 billion at June 30, 2015, compared to assets of $18.2 billion and liabilities of $5.1 billion at June 30, 2014. Net position, which represents the residual interest in the University's assets after liabilities are deducted, totaled $13.3 billion and $13.1 billion at June 30, 2015 and 2014, respectively. Changes in net position represent the University's results of operations and are summarized for the years ended June 30, 2015 and 2014 as follows:

(in millions)	2015	2014
Operating revenues and educational appropriations	$ 6,307.6	$ 5,900.6
Private gifts for operating activities	172.0	166.4
Operating and net interest expenses	(6,735.1)	(6,428.0)
	(255.5)	(361.0)
Net investment income	357.8	1,653.8
Endowment, capital gifts and grants and other	135.4	282.2
Increase in net position	$ 237.7	$ 1,575.0

Net position increased $238 million in 2015 after an increase of $1.6 billion in 2014 primarily as a result of net investment income which totaled $358 million and $1.7 billion in 2015 and 2014, respectively.

Management's Discussion and Analysis
(UNAUDITED)

In 2015, operating revenues and educational appropriations increased 6.9 percent, or $407 million, while total operating and net interest expenses increased 4.8 percent, or $307 million. Endowment and capital gifts increased significantly in 2014 as a result of the underlying activity associated with the Victors for Michigan campaign which was launched in November 2013.

The results of operations reflect the University's focus on maintaining its national standards academically, in research and in health care within a competitive recruitment environment for faculty and health care professionals and a period of reduced federal funding for research. At the same time, the University is addressing constrained state appropriations and rising health care, regulatory and facility costs with aggressive cost cutting and productivity gains to help preserve access to affordable higher education for Michigan families. To achieve aggressive and sustainable long-term goals for cost cutting and productivity gains, the University is also strategically utilizing resources to bridge cuts and support enterprise-wide information technology projects and other initiatives.

The University's long-term investment strategy combined with its endowment spending policy serves to insulate operations from expected volatility in the capital markets and provides for a stable and predictable level of spending distributions from the endowment. Endowment spending rate distributions to University units totaled $286 million and $277 million in 2015 and 2014, respectively. The success of the University's long-term investment strategy is evidenced by strong returns over sustained periods of time and the ability to limit losses in the face of challenging markets.

The University invests its financial assets in pools with distinct risk and liquidity characteristics based on its needs, with most of its financial assets invested in two such pools. The University's working capital is primarily invested in relatively short duration, liquid assets, through its Daily and Monthly Portfolios, while the endowment is invested, along with the noncurrent portion of the insurance and benefit reserves, in an equity oriented long-term strategy, through its Long Term Portfolio.

USING THE FINANCIAL STATEMENTS

The University's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles, which establish standards for external financial reporting for public colleges and universities.

STATEMENT OF NET POSITION

The statement of net position presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The difference between total assets and total liabilities – net position – is one indicator of the current financial condition of the University, while the change in net position is an indication of whether the overall financial condition has improved or worsened during the year. A comparison of the University's assets, liabilities and net position at June 30, 2015 and 2014 is summarized as follows:

(in millions)	2015	2014
Current assets	$ 2,243	$ 2,317
Noncurrent assets:		
Endowment, life income and other investments	10,264	10,053
Capital assets, net	5,622	5,467
Other	349	358
Total assets	18,478	18,195
Current liabilities	1,640	1,530
Noncurrent liabilities	3,542	3,607
Total liabilities	5,182	5,137
Net position	$ 13,296	$ 13,058

The University continues to maintain and protect its strong financial foundation. This financial health, as reflected in the statement of net position at June 30, 2015 and 2014, results from the prudent utilization of financial resources including careful cost controls, preservation of endowment funds, conservative utilization of debt and adherence to a long-range capital plan for the maintenance and replacement of the physical plant.

Current assets consist primarily of cash and cash equivalents, operating and capital investments and accounts receivable and totaled $2.2 billion and $2.3 billion at June 30, 2015 and 2014, respectively. Cash, cash equivalents and investments for operating activities totaled $1.1 billion at June 30, 2015, which represents approximately two months of total expenses excluding depreciation.

Current liabilities consist primarily of accounts payable, accrued compensation, unearned revenue, commercial paper, the current portion of bonds payable and net long-term bonds payable subject to remarketing. Current liabilities totaled $1.6 billion and $1.5 billion at June 30, 2015 and 2014, respectively.

ENDOWMENT, LIFE INCOME AND OTHER INVESTMENTS

The composition of the University's endowment, life income and other investments at June 30, 2015 and 2014 is summarized as follows:

(in millions)	2015	2014
Endowment investments	$ 9,952	$ 9,731
Life income investments	111	119
Noncurrent portion of insurance and benefits obligations investments	201	203
	$ 10,264	$ 10,053

The University's endowment funds consist of both permanent endowments and funds functioning as endowment. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity to produce income that is to be expended for the purposes specified by the donors. Funds functioning as endowment consist of amounts (restricted gifts or unrestricted funds) that have been allocated by the University for long-term investment purposes, but are not limited by donor stipulations requiring the University to preserve principal in perpetuity. Programs supported by endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities.

The University uses its endowment funds to support operations in a way that strikes a balance between generating a predictable stream of annual support for current needs and preserving the purchasing power of the endowment funds for future periods. The major portion of the endowment is maintained in the University Endowment Fund, a unitized pool which represents a collection of approximately 9,200 separate (individual) funds, the majority of which are restricted for specific purposes. The University Endowment Fund is invested in the University's Long Term Portfolio, a single diversified investment pool.

The endowment spending rule provides for distributions from the University Endowment Fund to the units that benefit from the endowment fund. At June 30, 2015 and 2014, the annual distribution rate was 4.5 percent of the one-quarter lagged seven year moving average fair value of University Endowment Fund shares. The University's endowment spending rule is one element of an ongoing financial management strategy that has allowed the University to effectively weather the challenging economic environment while avoiding measures such as faculty hiring freezes, furloughs, program cuts or halting construction.

To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Capital gains or income generated above the endowment spending rate are reinvested so that in lean times funds will be available for distribution. In addition, departments may also use withdrawals from funds functioning as endowment to support capital expenditures and operations.

Endowment spending rate distributions totaled $292 million, $283 million and $276 million and withdrawals from funds functioning as endowment totaled $13 million, $137 million and $24 million in 2015, 2014 and 2013, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.1 percent, 6.0 percent and 4.8 percent of the current year average fair value of the University Endowment Fund for 2015, 2014 and 2013, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 5.1 percent.

CAPITAL AND DEBT ACTIVITIES

One of the critical factors in continuing the quality of the University's academic, research and clinical programs is the development and renewal of capital assets. The University continues to implement its long-range plan to modernize its complement of older facilities and strategically invest in new construction.

Capital asset additions totaled $660 million in 2015, as compared to $590 million in 2014. Capital asset additions primarily represent renovation and new construction of student residence, academic, research, clinical and athletic facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were primarily funded with net position and gifts designated for capital purposes of $563 million, as well as debt proceeds of $97 million. Construction in progress, which totaled $529 million at June 30, 2015 and $271 million at June 30, 2014, includes important projects for student residential life, research, instruction, patient care and athletics.

Projects completed in 2015 include renovation and expansion of the South Quadrangle Residence Hall, the A. Alfred Taubman Health Sciences Library building and the Phyllis Ocker Field Hockey Stadium.

Originally constructed in 1951, South Quadrangle, one of the Universities largest residence halls, underwent a renovation of approximately 106,700 gross square feet of space, including the ground and first floors. The renovation expanded student dining facilities to create a central campus dining center with seating for 950 and provided new and reorganized spaces to enable greater student interaction and community development. Infrastructure improvements within the renovated areas included new plumbing, heating, cooling and fire detection and suppression systems, along with wired and wireless high-speed network access. The project also included renovated bath facilities and accessibility improvements.

By moving a large portion of less frequently used library collections off-site, valuable space for academic needs was created in the A. Alfred Taubman Health Sciences Library building. This project renovated approximately 137,000 gross square feet to make use of vacated space and to rearrange and repurpose various functions in the building. The renovated building increases the area dedicated to health sciences instruction, including a clinical skills and simulation suite, and provides additional space for computing services, study and faculty and student services.

Renovations to Phyllis Ocker Field Hockey Field include a newly constructed team support building, with locker rooms for players and coaches, offices, training facilities, hydrotherapy pools and broadcast facilities. A new grandstand with capacity for 1,500 spectators was also constructed as well as a concessions building with public restrooms and improvements to the field, including a new scoreboard, turf and field lighting.

Construction in progress at June 30, 2015 includes several major academic and residential renovation and construction projects. Construction continues on the Munger Graduate Residences, a new state-of-the-art residence hall designed to foster a high level of diversity and interaction among graduate students studying across the university's 19 schools and colleges. By bringing together scholars with different approaches, this trans-disciplinary residence program aims to break up the traditional silos of graduate work and generate new ideas. The eight-story building, scheduled to be completed in July 2015, will accommodate 630 graduate students in an apartment style layout.

Renovation also continues on the West Quadrangle residence hall, as part of the University's residential life initiatives to improve housing and dining facilities and strengthen the connection between living and learning on campus. With the creation of a central campus dining facility in nearby South Quad, the dining area in West Quad is being repurposed for much-needed community and study spaces for student living and learning activities. The renovation also includes infrastructure upgrades such as new plumbing, heating, cooling, and ventilation systems; renovated student rooms and bath facilities; and accessibility improvements. This project is scheduled to be completed in summer 2015.

At the Ross School of Business, a comprehensive renovation of the Kresge Business Administration Library and construction of a new academic building to replace the Computer and Executive Education Building is under way. In total, this project represents approximately 75,000 gross square feet of building renovation and 104,000 gross square feet of new building construction. The project will add classrooms, study space, and faculty and research offices, and enhance non-academic operations to improve the student experience, including student life, financial aid, admissions, and onsite recruiting for careers. Exterior building finishes are also being added to Sam Wyly Hall, the Business Administration Executive Dormitory and the Hill Street Parking Structure to create a unified look for the entire Ross School complex of buildings and provide a welcoming and unified exterior aesthetic for students, faculty and staff. This project is scheduled to be completed in fall 2016.

The University is aware of its financial stewardship responsibility and works diligently to manage its financial resources effectively, including the prudent use of debt to finance capital projects. A strong debt rating is an important indicator of the University's success in this area. In February 2014, Moody's affirmed its highest credit rating (Aaa) for bonds backed by a broad revenue pledge based on extremely strong credit fundamentals, including significant financial resources, strong market position and consistent operating performance derived from a well-diversified revenue base. Standard & Poor's also affirmed its highest credit rating (AAA) based on the University's national reputation for academic and research excellence, strong financial resources, positive financial performance, exceptional record of fundraising and manageable debt burden and capital plan. Only three other public universities maintain the highest credit ratings from both Moody's and Standard & Poor's.

Long-term debt activity for the years ended June 30, 2015 and 2014 is summarized as follows:

2015

(in millions)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 41	$ 137	$ 40	$ 138
Bonds	1,794		64	1,730
	$ 1,835	$ 137	$ 104	$ 1,868

2014

(in millions)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 55	$ 2	$ 16	$ 41
Bonds	1,752	101	59	1,794
	$ 1,807	$ 103	$ 75	$ 1,835

The University utilizes commercial paper, backed by a general revenue pledge, to provide interim financing for its capital improvement program. Outstanding commercial paper is converted to long-term debt financing as appropriate, within the normal course of business. Outstanding bonds are supported by the University's general revenues.

During 2014, consistent with capital and debt financing plans, the University issued $92 million of fixed rate, tax-exempt, general revenue bonds, with a net original issue premium of $9 million. Total bond proceeds of $101 million were utilized for capital projects and debt issuance costs.

The composition of the University's debt at June 30, 2015 and 2014 is summarized as follows:

(in millions)	2015	2014
Variable rate:		
Commercial paper	$ 138	$ 41
Bonds	833	850
Fixed rate bonds	897	944
	$ 1,868	$ 1,835

A significant portion of the University's variable rate bonds are subject to remarketing and, in accordance with GASB Interpretation No. 1, such debt is classified as current unless supported by long-term liquidity arrangements such as lines of credit or standby bond purchase agreements, which could refinance the debt on a long-term basis. In the event that variable rate bonds are put back to the University by the debt holder, management believes that the University's strong credit rating will ensure that the bonds will be remarketed within a reasonable period of time. In addition, the University maintains four remarketing agents to achieve a wide distribution of its variable rate debt.

While fixed rate bonds typically have a higher effective rate of interest at the date of issuance as compared to variable rate bonds, they reduce the volatility of required debt service payments and do not require liquidity support, such as letters of credit or guarantees.

Effective interest rates averaged 2.1 percent in both 2015 and 2014, including the federal subsidies for interest on taxable Build America Bonds. In 2014, interest expense included the write-off of unamortized bond issuance costs of $8 million as required by the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). Interest expense net of federal subsidies received for interest on taxable Build America Bonds and interest capitalized during construction totaled $42 million in 2015 and $47 million in 2014. Capitalized interest on debt financed construction in progress totaled $2 million in 2015. There was no interest capitalized in 2014.

OBLIGATIONS FOR POSTEMPLOYMENT BENEFITS

In accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, the University recognizes the cost of postemployment benefits during the periods when employees render their services. Using current actuarial assumptions, and presuming a continuation of the current level of benefits, the University's obligations for postemployment benefits totaled $1.75 billion and $1.73 billion at June 30, 2015 and 2014, respectively. Since a portion of retiree medical services will be provided by the University's Health System, this liability is net of the related margin and fixed costs of providing those services which totaled $331 million and $303 million at June 30, 2015 and 2014, respectively.

By implementing a series of health benefit initiatives over the past ten years, the University has favorably impacted its actuarial accrued liability for post-employment benefits by approximately $831 million as of June 30, 2015. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and the adjustment of retirement eligibility criteria. The University amortizes changes in actuarial assumptions, plan design and experience gains and losses over a ten-year closed period. Accordingly, the liability for net postemployment benefits obligations recorded in the statement of net position differs from the actuarial accrued liability by the unamortized portion of these changes. At June 30, 2015, the recorded liability for net postemployment benefits obligations totaled $1.75 billion and the actuarial accrued liability totaled $1.89 billion.

NET POSITION

Net position represents the residual interest in the University's assets after liabilities are deducted. The composition of the University's net position at June 30, 2015 and 2014 is summarized as follows:

(in millions)	2015	2014
Net investment in capital assets	$ 3,782	$ 3,698
Restricted:		
Nonexpendable:		
Permanent endowment corpus	1,674	1,535
Expendable:		
Net appreciation of permanent endowments	1,708	1,725
Funds functioning as endowment	2,061	2,008
Restricted for operations and other	603	739
Unrestricted	3,468	3,353
	$ 13,296	$ 13,058

Net investment in capital assets represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt related to the acquisition, construction or improvement of those assets. The $84 million increase in 2015 reflects the University's continued development and renewal of its capital assets in accordance with its long-range capital plan.

Restricted nonexpendable net position represents the historical value (corpus) of gifts to the University's permanent endowment funds. The $139 million increase in 2015 primarily represents new gifts. Restricted expendable net position is subject to externally imposed stipulations governing their use and includes net appreciation of permanent endowments, funds functioning as endowment and net position restricted for operations, facilities and student loan programs. Restricted expendable net position totaled $4.4 billion at June 30, 2015, as compared to $4.5 billion at June 30, 2014. The decrease of approximately $100 million in 2015 is driven primarily by the spend down of existing capital gifts offset somewhat by new gifts and investment returns.

Although unrestricted net position is not subject to externally imposed stipulations, all of the University's unrestricted net position has been designated for various academic programs, research initiatives and capital projects. Unrestricted net position at June 30, 2015 and 2014 totaled $3.5 billion and $3.4 billion, respectively. At June 30, 2015 and 2014, unrestricted net position included funds functioning as endowment of $4.3 billion offset by unfunded obligations for postemployment benefits of $1.7 billion. Unrestricted net position also includes other net resources which totaled approximately $900 million and $800 million at June 30, 2015 and 2014, respectively.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

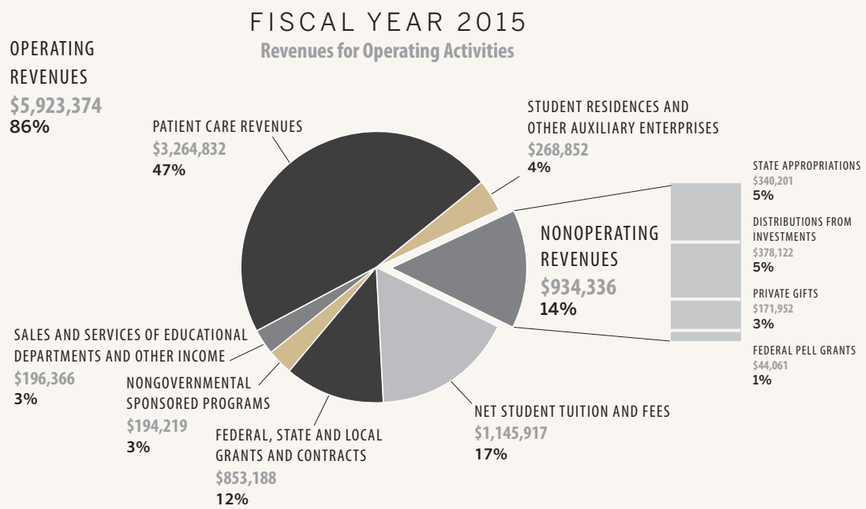
The statement of revenues, expenses and changes in net position presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A comparison of the University's revenues, expenses and changes in net position for the three years ended June 30, 2015 is summarized as follows:

(in millions)	2015	2014	2013
Operating revenues:			
Net student tuition and fees	$ 1,145.9	$ 1,107.6	$ 1,064.7
Sponsored programs	1,047.4	1,027.6	1,076.0
Patient care revenues, net	3,264.8	3,001.3	2,786.1
Other	465.3	398.4	390.5
	5,923.4	5,534.9	5,317.3
Operating expenses	6,693.2	6,381.3	6,121.0
Operating loss	(769.8)	(846.4)	(803.7)
Nonoperating and other revenues (expenses):			
State educational appropriations	340.2	321.7	315.9
Federal Pell grants	44.0	44.0	43.2
Private gifts for operating activities	172.0	166.4	168.6
Net investment income	357.8	1,653.8	847.3
Interest expense, net	(49.3)	(54.2)	(49.3)
Federal subsidies for interest on Build America Bonds	7.4	7.5	8.2
Endowment and capital gifts and grants	138.2	297.7	212.1
Other	(2.8)	(15.5)	(12.4)
Nonoperating and other revenues, net	1,007.5	2,421.4	1,533.6
Increase in net position	237.7	1,575.0	729.9
Net position, beginning of year	13,058.1	11,483.1	10,753.2
Net position, end of year	$ 13,295.8	$ 13,058.1	$ 11,483.1

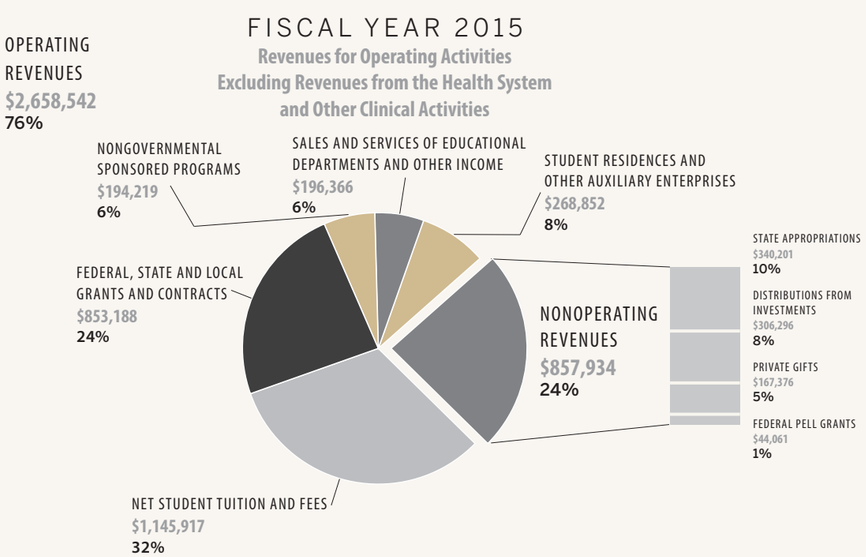
One of the University's greatest strengths is the diverse streams of revenue that supplement its student tuition and fees, including private support from individuals, foundations and corporations, along with government and other sponsored programs, state appropriations and investment income. The University continues to aggressively seek funding from all possible sources consistent with its mission in order to supplement student tuition and prudently manage the financial resources realized from these efforts to fund its operating activities, which include instruction, patient care and research.

The following is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's operating activities for the year ended June 30, 2015 (amounts are presented in thousands of dollars). Certain recurring sources of the University's revenues are considered nonoperating, as defined by GASB, such as state appropriations, distributions from investments, private gifts and federal Pell grants.

Management's Discussion and Analysis
(UNAUDITED)



The University measures its performance both for the University as a whole and for the University without its Health System and other clinical activities. The exclusion of these activities allows a clearer view of the operations of the schools and colleges, as well as central administration. The following is a graphic illustration of University revenues by source, both operating and nonoperating, which are used to fund operating activities other than the Health System and other clinical activities, for the year ended June 30, 2015 (amounts are presented in thousands of dollars).



Tuition and state appropriations are the primary sources of funding for the University's academic programs. There is a relationship between the growth or reduction in state support and the University's ability to restrain tuition fee increases. Together, net student tuition and fees and state appropriations increased 4 percent, or $57 million, to $1.49 billion in 2015, as compared to 4 percent, or $49 million, to $1.43 billion in 2014.

The University has been able to avoid the severe cuts and double digit tuition increases experienced elsewhere in the country due to a prudent long-term plan which anticipated the realities of the state's challenging economy. The University's plan includes an ongoing commitment to cost containment and reallocating resources to the highest priorities to provide support for innovative new initiatives to maintain academic excellence and help students keep pace with the evolving needs of society.

In 2015, the University's state educational appropriations increased 6 percent, or $18 million, to $340 million. This follows a year when the University's state educational appropriations increased 2 percent, or $6 million, to $322 million in 2014.

For the three years ended June 30, 2015, net student tuition and fees revenue consisted of the following components:

(in millions)	2015	2014	2013
Student tuition and fees	$ 1,458.6	$ 1,405.3	$ 1,349.1
Less scholarship allowances	312.7	297.7	284.4
	$ 1,145.9	$ 1,107.6	$ 1,064.7

In 2015, net student tuition and fees revenue increased 3 percent, or $38 million, to $1.15 billion, which reflects a 4 percent, or $53 million, increase in gross tuition and fee revenues offset by a 5 percent, or $15 million, increase in scholarship allowances. Tuition rate increases in 2015 were 1.6 percent for resident undergraduate students, 3.4 percent for nonresident undergraduate students and 2.4 percent for most graduate students on the Ann Arbor campus, with a 3.2 percent tuition rate increase for most undergraduate and graduate students on the Dearborn campus and a 3.0 percent tuition rate increase for undergraduate and graduate students on the Flint campus. The total number of students remained relatively stable; however, the University continues to experience a shift in mix from resident to non-resident students.

In 2014, net student tuition and fees revenue increased 4 percent, or $43 million, to $1.11 billion, which reflects a 4 percent, or $56 million, increase in gross tuition and fee revenues offset by a 5 percent, or $13 million, increase in scholarship allowances. Tuition rate increases in 2014 were 1.1 percent for resident undergraduate students, 3.2 percent for nonresident undergraduate students and 1.8 percent for most graduate students on the Ann Arbor campus, with a 3.5 percent tuition rate increase for most undergraduate and graduate students on the Dearborn campus and 3.5 percent and 3.0 percent tuition rate increases for undergraduate and graduate students on the Flint campus, respectively. The University also experienced moderate growth in the number of students, particularly nonresident students.

The University's tuition rate increases have consistently been among the lowest in the state, even in years of significant reductions in state appropriations, which reflects a commitment to affordable higher education for Michigan families. At the same time, the University has also increased scholarship and fellowship expenses and related allowances to benefit students in financial need.

While tuition and state appropriations fund a large percentage of University costs, private support is also essential to the University's academic distinction. Private gifts for other than capital and permanent endowment purposes totaled $172 million in 2015, as compared to $166 million in 2014 and $169 million in 2013.

Management's Discussion and Analysis
(UNAUDITED)

The University receives revenues for sponsored programs from various government agencies and private sources, which normally provide for both direct and indirect costs to perform these sponsored activities, with a significant portion related to federal research. Revenues for sponsored programs increased 2 percent, or $20 million, to $1.0 billion in 2015, driven primarily by a continued increase in revenue from industry sponsored activities. Revenues for sponsored programs decreased 4 percent, or $48 million, to $1.0 billion in 2014, which reflects the ongoing impact of sequestration and continued competitive pressure associated with obtaining federally sponsored funds, offset somewhat by increased revenue from industry sponsored activities.

Patient care revenues are principally generated within the University's hospitals and ambulatory care facilities under contractual arrangements with governmental payers and private insurers. Patient care revenues increased 9 percent, or $264 million, to $3.3 billion in 2015, as compared to an increase of 8 percent, or $215 million, to $3.0 billion in 2014. The increased revenues for both years primarily resulted from growth in outpatient and inpatient volume, as well as an increase in revenue per patient case driven by favorable changes in payment rates.

Net investment income totaled $358 million in 2015, compared to $1.7 billion in 2014 and $847 million in 2013. In 2015, markets were characterized by a strengthening US dollar and large declines in prices for oil and commodities, both of which impacted returns for a variety of risk assets. Marketable equities were moderately positive for developed countries, including the US; fixed income and absolute return strategies generated low single-digit returns; while emerging market equities returns were negative for the year. Alternative investment results were mixed, with venture capital leading with high double-digit returns while natural resources were down significantly in response to lower oil and natural gas prices. In 2014 and 2013, returns were strong in developed market equities, absolute return strategies and all alternative asset classes. In addition, the fixed income asset class which experienced small losses in 2013 achieved double digit returns in 2014.

Endowment and capital gifts and grants totaled $138 million in 2015, as compared to $298 million and $212 million in 2014 and 2013, respectively, with the significant increase in 2014 and 2013 due primarily to capital gifts. Private gifts for permanent endowment purposes totaled $115 million in 2015, as compared to $89 million and $78 million in 2014 and 2013, respectively. Capital gifts and grants totaled $23 million in 2015, as compared to $209 million and $134 million in 2014 and 2013, respectively. Over the past three years, major capital gifts have been received in support of the University's wide-ranging building initiatives which include graduate student housing, the Health System, Law School, Stephen M. Ross School of Business, College of Engineering and Intercollegiate Athletics current and planned capital projects.

In addition to revenue diversification, the University continues to make cost containment an ongoing priority. This is necessary as the University continues to face significant financial pressures, particularly in the areas of compensation and benefits, which represent 64 percent of total expenses, as well as in the areas of energy, technology and ongoing maintenance of facilities and infrastructure.

A comparative summary of the University's expenses for the three years ended June 30, 2015 is as follows:

(in millions)	2015		2014		2013	
Operating:						
Compensation and benefits	$ 4,330.9	64%	$ 4,150.8	64%	$ 3,965.0	64%
Supplies and services	1,735.9	26	1,618.5	25	1,555.8	25
Depreciation	493.6	7	487.5	8	476.9	8
Scholarships and fellowships	132.8	2	124.5	2	123.3	2
	6,693.2	99	6,381.3	99	6,121.0	99
Nonoperating:						
Interest, net	41.9	1	46.7	1	41.1	1
	$ 6,735.1	100%	$ 6,428.0	100%	$ 6,162.1	100%

The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. The resources expended for compensation and benefits increased 4 percent, or $180 million, to $4.3 billion in 2015, as compared to 5 percent, or $186 million, to $4.2 billion in 2014. Of the 2015 increase, compensation increased 5 percent, to $3.4 billion, and employee benefits increased 2 percent, to $962 million. For 2014, compensation increased 5 percent, to $3.2 billion, and employee benefits increased 5 percent, to $947 million. During 2015 and 2014, nursing and other health professionals were added to support higher patient volume levels.

The University faces external and industry realities that put significant pressure on its ability to reduce compensation costs while remaining competitive. To help address this risk, the University continues to review components of its existing benefits program to find opportunities for potential savings without compromising the ability to offer competitive benefits to all faculty and staff.

Effective January 1, 2015, the University changed its defined contribution retirement plan to use base pay alone as eligible pay for calculating plan contributions. Elements of salary beyond base pay such as administrative and added-duties differentials, one-time lump sum payments, overtime pay, and payout of unused vacation time upon termination will now be excluded from retirement savings calculations. Additionally, University contributions to the plan for certain employees of its health system were reduced to a cap of 9 percent from 10 percent of eligible pay to better align these benefits with those offered within the health care industry. All employees participating in the University's retirement savings plans continue to have the option to save additional base pay via a supplemental retirement account on a pre-tax basis.

Health care benefits are one of the most significant employee benefits. Over the past several years, the University has implemented initiatives to better control its rate of cost increase, encourage employees to choose the lowest cost health care plan that meets their needs and share a larger portion of health care cost increases with employees.

Compared to most employers, the University is in a unique position to utilize internal experts to advise and guide its health care and drug plans. For example, the Pharmacy Benefits Advisory Committee, which consists of internal experts including Health System physicians, School of Pharmacy faculty and on-staff pharmacists, monitors the safety and effectiveness of covered medications and guides appropriate prescribing, dispensing and cost effective use of prescription drugs. In addition, the University utilizes its nationally recognized health policy experts to guide future health plan strategies.

During 2013, the University began to implement changes to eligibility requirements and the University contribution to retiree health benefits that were announced in 2011. These changes were recommended by a committee that evaluated ways to maintain competitive retiree health benefits while helping address the acceleration of future costs. The changes are being phased in over eight years in order to assist current employees with the transition.

The University utilizes a point system to determine retirement eligibility, where points represent the combination of age and years of service for full-time employees. The points needed to retire with health benefits will gradually be increased from 76 in 2013 to 80 in 2021. Over the same period, the University's contribution towards health care benefits will gradually decrease from 87.5 percent for the retiree and 65 percent for any dependents for employees who retire in 2013 to a maximum of 80 percent for the retiree and 50 percent for any dependents for employees who retire in 2021. Employees who retire after December 31, 2020 will need a minimum of 20 years of service to receive the maximum contribution upon retirement which will be 68 percent for the retiree and 26 percent for any dependents. These adjustments will keep the University's retiree benefits competitive with peer institutions while producing an estimated $9 million reduction in annual cash outlay by 2020 and an estimated $165 million reduction in annual cash outlay by 2040.

The University continues to monitor and evaluate the cost of employee and retiree health benefits, following key benchmarks to ensure competitiveness with local and national higher education and health care markets. As national health care reforms are implemented under the Affordable Care Act, the University is closely tracking cost and coverage implications. Careful stewardship of our health benefit plans helps maintain our competitive position while preserving funding for the University's core mission.

Management's Discussion and Analysis
(UNAUDITED)

The MHealthy initiative is a University-wide effort to improve the health and well-being of faculty, staff and their dependents by creating a culture of health and reducing or preventing health risks in our population. A five-year review of the program conducted in 2015 noted that overall annual program participation has been stable, with over 20,000 employees. Over the five-year period, decreases in the percentage of high risk employees occurred in many risk areas including back pain, alcohol, tobacco, nutrition and physical activity.

These initiatives and programs reflect the reality of the national landscape, while remaining true to the commitment we make to our employees for a robust benefits package.

Supplies and services expenses increased 7 percent, or $117 million, to $1.74 billion in 2015, as compared to an increase of 4 percent, or $63 million, to $1.62 billion in 2014. These increases were primarily due to growth in patient care related expenses including higher costs of prescription drugs and surgical implants, as well as activation costs associated with significant capital projects. During 2014, the new Northville Health Center facility was placed in service and the University implemented several significant information technology systems, including the third phase of an electronic medical record and patient billing system.

Depreciation expense increased 1 percent, or $6 million, to $494 million in 2015, as compared to an increase of 2 percent, or $11 million, to $488 million in 2014. The increased depreciation expense is primarily related to the completion of current year capital projects, as well as the impact of a full year of depreciation for the capital projects completed during the prior year. Capital assets placed in service during 2015 include the renovation and expansion of South Quad, the A. Alfred Taubman Health Sciences Library buildings and the Phyllis Ocker Field Hockey Stadium. Capital assets completed in 2014 include the renovations of East Quad and the Lawyers Club, the expansion of the ISR building and the Northville Health Center facility, and in 2013 include the renovation and expansion of Crisler Arena and the Michigan Memorial Phoenix Laboratory.

Net interest expense decreased $5 million in 2015 to $42 million, from $47 million in 2014 and $41 million in 2013. The decrease in 2015 was primarily driven by the write-off of unamortized bond issuance costs during 2014 in connection with the adoption of GASB 65.

In addition to their natural (object) classification, it is also informative to review operating expenses by function. A comparative summary of the University's expenses by functional classification for the three years ended June 30, 2015 is as follows:

(in millions)	2015		2014		2013	
Operating:						
Instruction	$ 983.5	15%	$ 953.9	15%	$ 924.5	15%
Research	706.1	10	708.8	11	750.2	12
Public service	189.4	3	152.8	2	148.9	2
Institutional and academic support	581.5	9	542.9	8	530.8	9
Auxiliary enterprises:						
Patient care	3,127.1	46	2,925.0	46	2,752.5	44
Other	201.5	3	208.5	3	157.6	3
Operations and maintenance of plant	277.7	4	277.4	4	256.3	4
Depreciation	493.6	7	487.5	8	476.9	8
Scholarships and fellowships	132.8	2	124.5	2	123.3	2
	6,693.2	99	6,381.3	99	6,121.0	99
Nonoperating:						
Interest, net	41.9	1	46.7	1	41.1	1
	$ 6,735.1	100%	$ 6,428.0	100%	$ 6,162.1	100%

Instruction expenses increased 3 percent, or $30 million in 2015, and 3 percent, or $29 million in 2014. This increase is consistent with the modest level of growth in the related revenue sources offset by cost containment efforts.

Research expenses decreased 0.4 percent or $3 million in 2015 and decreased 6 percent or $41 million in 2014, reflecting continued pressure from sequestration and intense competition for research dollars. To measure its total volume of research expenditures, the University considers research expenses, included in the above table, as well as research related facilities and administrative expenses, research initiative and start-up expenses and research equipment purchases. These amounts aggregated $1.3 billion in both 2015 and 2014.

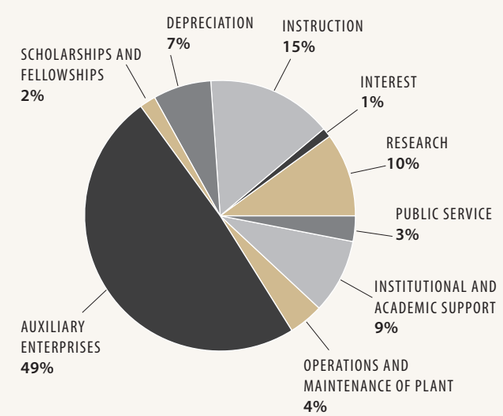
Patient care expenses increased 7 percent, or $202 million, in 2015 and 6 percent, or $173 million, in 2014. These increases are the result of additional patient care volume, including costs of staffing, medical supplies and pharmaceuticals.

Total scholarships and fellowships provided to students aggregated $465 million in 2015, as compared to $441 million in 2014 and $426 million in 2013, an increase of 9 percent over the past two years. Tuition, housing and fees revenues are reported net of aid applied to students' accounts, while amounts paid directly to students are reported as scholarship and fellowship expenses. Scholarships and fellowships for the three years ended June 30, 2015 are summarized as follows:

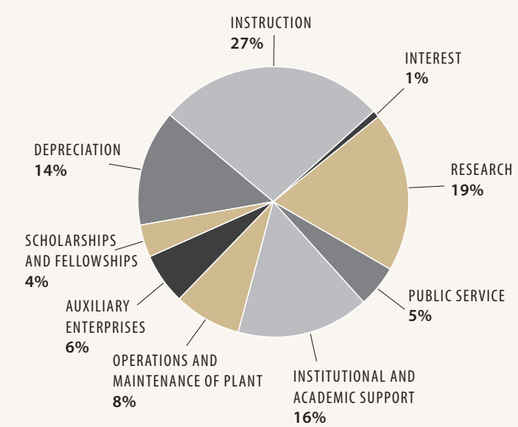
(in millions)	2015	2014	2013
Paid directly to students	$ 132.8	$ 124.5	$ 123.3
Applied to tuition and fees	312.7	297.7	284.4
Applied to University Housing	19.8	18.6	18.0
	$ 465.3	$ 440.8	$ 425.7

The following graphic illustrations present total expenses by function, with and without the University's Health System and other patient care activities:

FISCAL YEAR 2015
Expenses by Function



FISCAL YEAR 2015
Expenses by Function
Excluding Expenses from the University's Health System and Other Patient Care Activities



STATEMENT OF CASH FLOWS

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2015 and 2014 is as follows:

(in millions)	2015	2014
Cash received from operations	$ 5,943.7	$ 5,562.4
Cash expended for operations	(6,238.8)	(5,880.0)
Net cash used in operating activities	(295.1)	(317.6)
Net cash provided by investing activities	291.0	102.8
Net cash used in capital and related financing activities	(617.0)	(434.9)
Net cash provided by noncapital financing activities	660.8	614.2
Net increase (decrease) in cash and cash equivalents	39.7	(35.5)
Cash and cash equivalents, beginning of year	65.8	101.3
Cash and cash equivalents, end of year	$ 105.5	$ 65.8

Cash received from operations primarily consists of student tuition, sponsored program grants and contracts and patient care revenues. Significant sources of cash provided by noncapital financing activities, as defined by GASB, include state appropriations, federal Pell grants and private gifts used to fund operating activities.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University continues to face significant financial challenges to its academic programs, stemming from the State's uncertain financial circumstances. Given the continuation of this difficult economic environment, it is noteworthy that the University maintains the highest credit ratings of Moody's (Aaa) and Standard & Poor's (AAA). Achieving and maintaining the highest credit ratings provides the University with significant flexibility in securing capital funds on the most competitive terms. This flexibility, along with ongoing efforts toward revenue diversification and cost containment, will enable the University to provide the necessary resources to support a consistent level of excellence in service to students, patients, the research community, the state and the nation.

A crucial element to the University's future continues to be a strong relationship with the state of Michigan. Historically, there has been a connection between the growth, or reduction, of state support and the University's ability to control tuition increases. Over the past several years, the University has successfully addressed the realities of the state's difficult economy and, pursuant to a long-range plan, continues to work relentlessly to cut and mitigate operational costs in order to remain affordable and preserve access, while protecting the academic enterprise.

The University's budget for 2016 anticipates a 1.4 percent increase in state educational appropriations, a 2.7 percent tuition rate increase for Ann Arbor campus resident undergraduates and an 8.0 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates will increase 3.7 percent, while most graduate and professional rates will increase 2.7 percent. Resident undergraduate tuition rates on the Dearborn and Flint campuses will increase 3.2 percent.

While tuition and state appropriations fund a large percentage of academic costs, private support is also essential to the University's academic distinction. In November 2013, the University launched the public phase of a major fundraising campaign with the announcement of an ambitious goal of $4 billion. The campaign, titled "Victors for Michigan", is focused on raising funds for three priority areas of student support, engaged learning and bold ideas, in order to better prepare tomorrow's leaders and address the complex problems facing the world. Since commencing the quiet phase of the campaign in 2011, the University has raised 73 percent of the goal, in cash, pledges and bequests. The campaign will continue through 2018.

The University continues to execute its long-range plan to modernize and expand its complement of older facilities while adding key new facilities for instruction, research, patient care and residential life. This strategy addresses the University's growth and the continuing effects of technology on teaching, research and clinical activities. Authorized costs to complete construction and other projects totaled $828 million at June 30, 2015. Funding for these projects is anticipated to include $738 million from gifts, grants and net position designated for capital purposes as well as future borrowings, $73 million from the State Building Authority and $17 million from the utilization of unexpended debt proceeds.

In addition to strategic capital and technological investments, the University's Health System is also focusing on clinical affiliation arrangements to enhance patient care, clinical research, physician recruitment and support services. During 2014, the Health System signed a letter of intent to affiliate with Allegiance Health Services, a community hospital and health care provider in Jackson County. The University allowed the letter of intent to expire during 2015.

While the University's Hospitals and Health Centers are well positioned to maintain a strong financial position in the near term, ongoing constraints on revenue are expected due to fiscal pressures from employers and federal and state governments. Management believes that much of the payment pressure can be offset by growth in patient volume and continued efforts to contain certain costs.

The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to preserve endowment capital and insulate the University's operations from temporary market volatility.

As a labor-intensive organization, the University faces competitive pressures related to attracting and retaining faculty and staff. Moreover, consistent with the national landscape, the University also faces rising costs of health benefits for its employees and retirees. The University has successfully taken and will continue to take proactive steps to respond to these challenges while protecting the quality of the overall benefits package.

U.S. health care reform will also continue to influence benefits planning. Since the Affordable Care Act was signed into law in March 2010 and subsequently affirmed by the Supreme Court, new regulatory requirements continue to affect health plans, providers and employers alike. Beginning in 2011, the University has implemented several initiatives in response to this new law including required cost-sharing, eligibility, and communications changes. University experts are continuing to assess additional health care reform impacts, including health insurance exchanges for large employers in 2017 and the excise tax on high-cost plans in 2018. Commencing January 1, 2016, the University will also be required to offer minimum essential health coverage to 95 percent of its full time employees regardless of regular or temporary status. The University is working to develop clear strategies and options for the future that will ensure compliance over the coming years of regulatory change.

While it is not possible to predict the ultimate results, management believes that the University's financial position will remain strong.

Financial Statements

CONSOLIDATED STATEMENT OF NET POSITION

(in thousands)	June 30, 2015	June 30, 2014
Assets		
Current Assets:		
Cash and cash equivalents	$ 105,465	$ 65,762
Investments for operating activities	957,915	943,663
Investments for capital activities	294,013	440,831
Investments for student loan activities	55,751	57,311
Accounts receivable, net	580,291	565,621
Current portion of notes and pledges receivable, net	79,445	74,120
Current portion of prepaid expenses and other assets	86,581	83,985
Cash collateral held by agent	83,203	85,657
Total Current Assets	2,242,664	2,316,950
Noncurrent Assets:		
Endowment, life income and other investments	10,264,326	10,053,139
Notes and pledges receivable, net	321,639	334,551
Prepaid expenses and other assets	27,101	23,934
Capital assets, net	5,622,386	5,466,671
Total Noncurrent Assets	16,235,452	15,878,295
Total Assets	**$ 18,478,116**	**$ 18,195,245**
Liabilities and Net Position		
Current Liabilities:		
Accounts payable	$ 232,110	$ 238,669
Accrued compensation and other	365,789	363,790
Unearned revenue	228,144	217,012
Current portion of insurance and benefits reserves	84,634	86,014
Current portion of obligations for postemployment benefits	65,172	66,262
Commercial paper and current portion of bonds payable	201,146	107,860
Long-term bonds payable subject to remarketing, net	336,374	319,479
Collateral held for securities lending	83,203	85,657
Deposits of affiliates and others	43,890	45,602
Total Current Liabilities	1,640,462	1,530,345
Noncurrent Liabilities:		
Accrued compensation	53,606	61,110
Insurance and benefits reserves	108,271	108,650
Obligations for postemployment benefits	1,687,691	1,665,192
Obligations under life income agreements	46,570	48,590
Government loan advances	87,483	87,343
Bonds payable	1,330,897	1,407,320
Deposits of affiliates and other	227,329	228,621
Total Noncurrent Liabilities	3,541,847	3,606,826
Total Liabilities	5,182,309	5,137,171
Net Position:		
Net investment in capital assets	3,782,130	3,697,894
Restricted:		
Nonexpendable	1,673,996	1,535,326
Expendable	4,371,607	4,471,681
Unrestricted	3,468,074	3,353,173
Total Net Position	13,295,807	13,058,074
Total Liabilities and Net Position	**$ 18,478,116**	**$ 18,195,245**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

(in thousands)	Year Ended June 30, 2015	Year Ended June 30, 2014
Operating Revenues		
Student tuition and fees	$ 1,458,576	$ 1,405,309
Less scholarship allowances	312,659	297,752
Net student tuition and fees	1,145,917	1,107,557
Federal grants and contracts	845,263	852,798
State and local grants and contracts	7,925	9,107
Nongovernmental sponsored programs	194,219	165,711
Sales and services of educational departments	193,487	123,918
Auxiliary enterprises:		
Patient care revenues (net of provision for bad debts of $124,783 in 2015 and $128,758 in 2014)	3,264,832	3,001,292
Student residence fees (net of scholarship allowances of $19,825 in 2015 and $18,599 in 2014)	98,221	92,247
Other revenues	170,631	179,576
Student loan interest income and fees	2,879	2,676
Total Operating Revenues	**5,923,374**	**5,534,882**
Operating Expenses		
Compensation and benefits	4,330,909	4,150,848
Supplies and services	1,735,922	1,618,549
Depreciation	493,629	487,458
Scholarships and fellowships	132,758	124,465
Total Operating Expenses	**6,693,218**	**6,381,320**
Operating loss	(769,844)	(846,438)
Nonoperating Revenues (Expenses)		
State educational appropriations	340,201	321,681
Federal Pell grants	44,061	43,987
Private gifts for other than capital and endowment purposes	171,952	166,395
Net investment income	357,780	1,653,792
Interest expense, net	(49,288)	(54,235)
Federal subsidies for interest on Build America Bonds	7,443	7,566
Total Nonoperating Revenues, Net	**872,149**	**2,139,186**
Income before other revenues (expenses)	102,305	1,292,748
Other Revenues (Expenses)		
State capital appropriations	3,847	
Capital gifts and grants	22,975	208,706
Private gifts for permanent endowment purposes	115,203	89,023
Other	(6,597)	(15,532)
Total Other Revenues, Net	**135,428**	**282,197**
Increase in net position	237,733	1,574,945
Net Position, Beginning of Year	13,058,074	11,483,129
Net Position, End of Year	**$ 13,295,807**	**$ 13,058,074**

The accompanying notes are an integral part of the consolidated financial statements.

Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended June 30, 2015	2014
Cash Flows From Operating Activities		
Student tuition and fees	$ 1,141,704	$ 1,106,911
Federal, state and local grants and contracts	840,144	852,552
Nongovernmental sponsored programs	201,852	174,346
Sales and services of educational departments and other	354,555	315,541
Patient care revenues	3,284,591	3,002,184
Student residence fees	98,801	90,998
Payments to employees	(3,374,825)	(3,196,506)
Payments for benefits	(936,342)	(913,930)
Payments to suppliers	(1,771,937)	(1,628,379)
Payments for scholarships and fellowships	(132,758)	(124,465)
Student loans issued	(22,942)	(16,762)
Student loans collected	19,206	17,212
Student loan interest and fees collected	2,879	2,676
Net Cash Used in Operating Activities	**(295,072)**	**(317,622)**
Cash Flows From Investing Activities		
Interest and dividends on investments, net	50,605	39,838
Proceeds from sales and maturities of investments	5,763,848	6,692,327
Purchases of investments	(5,530,132)	(6,670,154)
Net decrease in cash equivalents from noncurrent investments	5,701	30,479
Net increase in deposits of affiliates and other	968	10,319
Net Cash Provided by Investing Activities	**290,990**	**102,809**
Cash Flows From Capital and Related Financing Activities		
Private gifts and other receipts	44,154	121,913
Proceeds from issuance of capital debt	136,915	102,907
Principal payments on capital debt	(100,640)	(72,759)
Interest payments on capital debt, net of capitalized interest	(54,801)	(52,512)
Federal subsidies for Build America Bonds interest	7,603	7,575
Payments for bond refunding and related costs		(422)
Purchases of capital assets, including capitalized interest	(652,241)	(543,761)
Proceeds from sales of capital assets	1,995	2,119
Net Cash Used in Capital and Related Financing Activities	**(617,015)**	**(434,940)**
Cash Flows From Noncapital Financing Activities		
State educational appropriations	336,834	320,634
Federal Pell grants	44,061	43,987
Private gifts and other receipts	277,284	249,162
Student direct lending receipts	304,656	331,503
Student direct lending disbursements	(303,638)	(327,598)
Amounts received for annuity and life income funds	9,136	4,225
Amounts paid to annuitants and life beneficiaries and related expenses	(7,533)	(7,725)
Net Cash Provided by Noncapital Financing Activities	**660,800**	**614,188**
Net increase (decrease) in cash and cash equivalents	39,703	(35,565)
Cash and Cash Equivalents, Beginning of Year	65,762	101,327
Cash and Cash Equivalents, End of Year	**$ 105,465**	**$ 65,762**

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS, CONTINUED

(in thousands)	Year Ended June 30, 2015	2014
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (769,844)	$ (846,438)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	493,629	487,458
Changes in assets and liabilities:		
Accounts receivable, net	(13,716)	8,145
Prepaid expenses and other assets	(19,257)	(5,621)
Accounts payable	(16,927)	2,428
Accrued compensation and other	261	1,336
Unearned revenue	11,132	2,631
Insurance and benefits reserves	(1,759)	(924)
Obligations for postemployment benefits	21,409	33,363
Net cash used in operating activities	$ (295,072)	$ (317,622)

The accompanying notes are an integral part of the consolidated financial statements.

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 over 61,000 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 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 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 University reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB, on the accrual basis. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

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 position is categorized as:

Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt related to the acquisition, construction or improvement of those assets.

Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that it be maintained permanently. Such net position includes 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 position 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 position includes net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.

Unrestricted: Net position not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net position is designated for various academic programs, research initiatives and capital projects.

Summary of Significant Accounting Policies: 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 position. 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 investments for operating activities.

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 carried at fair value, which is generally provided by the management of the investment partnerships as of June 30, 2015 and 2014. The University may also adjust the fair value of these investments based on market conditions, specific redemption terms and restrictions, risk considerations and other factors. As 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.

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 an allowance for uncollectible accounts receivable. The allowance 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 and 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 generally 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 way. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

Unearned revenue consists primarily of cash received from grant and contract sponsors which has not yet been earned under the terms of the agreement. Unearned 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 totaled $1,708,175,000 and $1,725,281,000 at June 30, 2015 and 2014, respectively, is recorded in restricted expendable net position. The University's endowment spending rule is further discussed in Note 2.

NOTE 1–ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 and bad debt expenses. Contractual allowances are established based on agreements with third-party payers that provide payments for patient care services at amounts different from established rates and adjusted in future periods as final settlements are determined. Patient care services are primarily provided through the University of Michigan Health System, which includes the Hospitals and Health Centers, the University of Michigan Medical Group, formerly 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.

Patient care services are provided to patients who meet certain criteria under the Hospitals and Health Centers' charity care policy without charge or at amounts less than its established rates. Accordingly, charity care is not reported as revenue in the accompanying statement of revenues, expenses and changes in net position. Charges forgone for charity care services totaled $20,557,000 and $55,038,000 in 2015 and 2014, respectively.

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

The University's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net position 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 result from nonexchange transactions, and are recorded as nonoperating revenues including state appropriations, 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.

Accounting Standard Issued But Not Yet Adopted: In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes new accounting and financial reporting requirements for the University's postemployment benefits. This Statement is effective for fiscal years beginning after June 15, 2017 and the University is currently evaluating the potential impact to its financial statements and related disclosures.

NOTE 2–CASH AND INVESTMENTS

Summary: The University maintains centralized management for substantially all of its cash and investments.

Working capital of individual University units is invested in the University Investment Pool ("UIP"). Together with the University's short-term insurance and other benefits reserves, the UIP is invested 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.

The University collectively invests substantially all of the assets of its endowment funds along with a portion of its insurance and benefits reserves, charitable remainder trusts and gift annuity program in the Long Term Portfolio. 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, natural resources and absolute return strategies.

The University also separately invests certain endowments and charitable remainder trusts, unexpended bond proceeds and other funds with investment restrictions outside of the Daily, Monthly and Long Term Portfolios.

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.

The endowment spending rule provides for distributions from the University Endowment Fund to the University entities that benefit from the endowment fund. At June 30, 2015 and 2014, the annual distribution rate was 4.5 percent of the one-quarter lagged seven year moving average fair value of fund shares. To protect endowment principal in the event of a prolonged market downturn, distributions are limited to 5.3 percent of the current fair value of fund shares. Distributions are also made from the UIP 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 UIP are funded by investment returns.

Cash and Cash Equivalents: Cash and cash equivalents, which totaled $105,465,000 and $65,762,000 at June 30, 2015 and 2014, 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 $9,136,000 and $8,070,000 at June 30, 2015 and 2014, respectively. The University does not require its deposits to be collateralized or insured.

NOTE 2–CASH AND INVESTMENTS, CONTINUED

Investments: At June 30, 2015 and 2014, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

(in thousands)	2015	2014
Cash equivalents, noncurrent	$ 52,461	$ 58,162
Fixed income securities	2,301,472	2,257,691
Commingled funds	2,903,066	2,121,542
Equity securities	1,300,173	1,460,819
Nonmarketable alternative investments	4,997,621	5,588,516
Other investments	17,212	8,214
	$ 11,572,005	$ 11,494,944

The University's investment strategy 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 position 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 3.4 years at June 30, 2015, compared to 5.0 years at June 30, 2014. 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 Monthly Portfolio held positions in bond futures at June 30, 2015 and 2014, which are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios.

The composition of fixed income securities at June 30, 2015 and 2014, along with credit quality and effective duration measures, is summarized as follows:

2015

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 617,218				$ 617,218	1.3
U.S. Treasury inflation protected	226,943				226,943	3.1
U.S. government agency	396,594				396,594	0.8
Mortgage backed		$ 42,578	$ 11,738	$ 7,738	62,054	1.6
Asset backed		31,509	1,553		33,062	3.5
Corporate and other		923,984	33,984	7,633	965,601	6.1
	$ 1,240,755	$ 998,071	$ 47,275	$ 15,371	$ 2,301,472	3.4

2014

(in thousands)	U.S. Government	Investment Grade	Non-Investment Grade	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 529,837				$ 529,837	4.0
U.S. Treasury inflation protected	299,533				299,533	3.2
U.S. government agency	439,648				439,648	0.2
Mortgage backed		$ 34,179	$ 13,831	$ 5,356	53,366	1.9
Asset backed		59,847	1,689		61,536	2.1
Corporate and other		824,069	44,417	5,285	873,771	9.0
	$ 1,269,018	$ 918,095	$ 59,937	$ 10,641	$ 2,257,691	5.0

Of the University's fixed income securities, 97 percent were rated investment grade or better at both June 30, 2015 and 2014, and 59 percent and 63 percent of these securities consisted of either U.S. treasury and government agencies or non-U.S. government securities rated AAA/Aaa at June 30, 2015 and 2014, respectively. Corporate and other fixed income securities include a receivable associated with the sale of a portion of the Univeristy's real estate nonmarketable alternative investments which totaled $157,832,000 at June 30, 2015.

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, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Absolute return	$ 1,385,538	$ 880,514
U.S. equities	330,039	387,828
Non-U.S./global equities	1,131,503	795,161
U.S. fixed income	50,057	51,293
Other	5,929	6,746
	$ 2,903,066	$ 2,121,542

NOTE 2–CASH AND INVESTMENTS, CONTINUED

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, 2015 and 2014, approximately 88 percent and 74 percent are redeemable within one year, with 64 and 51 percent redeemable within 90 days under normal market conditions. 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 not an 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, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Private equity	$ 1,207,348	$ 1,313,188
Real estate	914,672	1,254,747
Venture capital	1,362,388	1,206,028
Absolute return	898,060	969,165
Natural resources	615,153	845,388
	$ 4,997,621	$ 5,588,516

The University's limited partnership investments are diversified in terms of manager selection, industry and geographic focus. At June 30, 2015 and 2014, 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, price changes of the underlying securities in local markets as well as changes to the value of local currencies relative to the U.S. dollar are embedded in 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 risks 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, which may result in short exposure to certain foreign currencies.

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 totaled $624,515,000 or 5 percent of total investments at June 30, 2015, and $1,213,415,000 or 11 percent of total investments at June 30, 2014. Non-U.S. dollar exposures at June 30, 2015 and 2014 are summarized as follows:

(in thousands)	2015	2014
Euros	$ 574,210	$ 558,970
Japanese yen	166,751	212,743
Canadian dollar	8,771	173,037
British pounds sterling	(93,105)	292,679
Singapore dollar	(141,793)	(124,004)
New Zealand dollar	(145,909)	11,742
Other	255,590	88,248
	$ 624,515	$ 1,213,415

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 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 $91,157,000 and $91,859,000 in securities loans outstanding at June 30, 2015 and 2014, respectively. At loan inception, an approved borrower must deliver collateral of cash, securities or letters of credit to the University's lending agent equal to 102 percent of fair value for domestic securities and 105 percent for foreign securities. Collateral positions are monitored daily to ensure that borrowed securities are never less than 100 percent collateralized. At June 30, 2015, collateral of $98,820,000 (108 percent of securities on loan) includes invested cash of $83,203,000 and U.S. government securities of $15,617,000, while at June 30, 2014, collateral of $97,688,000 (106 percent of securities on loan) includes invested cash of $85,657,000 and U.S. government securities of $12,031,000.

Cash collateral held by the University's lending agent, along with the offsetting liability to return the collateral at loan termination, are recorded in the statement of net position. Neither the University nor its securities lending agent has the ability to pledge or sell securities received as collateral unless a borrower defaults. Securities loans may be terminated upon notice by either the University or the borrower.

NOTE 3–ACCOUNTS RECEIVABLE

The composition of accounts receivable at June 30, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Patient care	$ 584,311	$ 559,775
Sponsored programs	113,594	98,849
State appropriations, educational and capital	65,701	58,487
Student accounts	29,580	25,713
Other	49,002	36,888
	842,188	779,712
Less allowance for uncollectible accounts receivable	261,897	214,091
	$ 580,291	$ 565,621

NOTE 4–NOTES AND PLEDGES RECEIVABLE

The composition of notes and pledges receivable at June 30, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Notes:		
Federal student loan programs	$ 89,839	$ 85,478
University student loan funds	17,495	18,316
Other	673	477
	108,007	104,271
Less allowance for uncollectible notes	3,100	3,100
Total notes receivable, net	104,907	101,171
Gift pledges:		
Capital	184,184	209,419
Operations	121,938	112,474
	306,122	321,893
Less:		
Allowance for uncollectible pledges	5,581	9,498
Unamortized discount to present value	4,364	4,895
Total pledges receivable, net	296,177	307,500
Total notes and pledges receivable, net	401,084	408,671
Less current portion	79,445	74,120
	$ 321,639	$ 334,551

The principal repayment and interest rate terms of federal and university loans vary considerably. The allowance for uncollectible 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, 2015 are expected to be received in the following years ended June 30 (in thousands):

2016	$ 63,633
2017	43,621
2018	38,536
2019	25,994
2020	17,688
2021 and after	116,650
	$ 306,122

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 $154,133,000 and $124,427,000 at June 30, 2015 and 2014, 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 due to uncertainties with regard to their realizability and valuation.

NOTE 5–CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2015 and 2014 is summarized as follows:

2015

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 112,011	$ 389		$ 112,400
Land improvements	116,677	8,564	$ 2,238	123,003
Infrastructure	241,528	6,519		248,047
Buildings	7,283,237	245,727	42,652	7,486,312
Construction in progress	270,963	257,765		528,728
Property held for future use	30,779	(6,277)		24,502
Equipment	1,879,237	122,262	140,233	1,861,266
Library materials	542,672	24,789		567,461
	10,477,104	659,738	185,123	10,951,719
Less accumulated depreciation	5,010,433	493,629	174,729	5,329,333
	$ 5,466,671	$ 166,109	$ 10,394	$ 5,622,386

2014

(in thousands)	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 100,914	$ 11,097		$ 112,011
Land improvements	112,301	4,377	$ 1	116,677
Infrastructure	231,858	9,670		241,528
Buildings	6,898,895	397,770	13,428	7,283,237
Construction in progress	328,418	(57,455)		270,963
Property held for future use	30,779			30,779
Equipment	1,739,835	200,832	61,430	1,879,237
Library materials	518,722	23,950		542,672
	9,961,722	590,241	74,859	10,477,104
Less accumulated depreciation	4,592,322	487,458	69,347	5,010,433
	$ 5,369,400	$ 102,783	$ 5,512	$ 5,466,671

The increase in construction in progress of $257,765,000 in 2015 represents the amount of capital expenditures for new projects of $585,979,000 net of assets placed in service of $328,214,000. The decrease in construction in progress of $57,455,000 in 2014 represents the amount of capital expenditures for new projects of $524,767,000 net of assets placed in service of $582,222,000. Interest of $1,548,000 was capitalized in 2015. There was no interest capitalized in 2014.

NOTE 6–LONG-TERM DEBT

Long-term debt at June 30, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Commercial Paper:		
Tax-exempt, variable rate (.077%)*	$ 132,625	$ 34,800
Taxable, variable rate (.15%)*	5,865	6,290
General Revenue Bonds:		
Series 2014A, 3.00% to 5.00% through 2044	81,310	83,065
Series 2014B, 0.265% to 3.516% through 2024	8,370	9,220
unamortized premium	7,914	8,283
Series 2013A, 2.00% to 5.00% through 2029	49,710	51,695
unamortized premium	2,395	2,669
Series 2012A, variable rate (.05%)* through 2036	50,000	50,000
Series 2012B, variable rate (.01%)* through 2042	65,000	65,000
Series 2012C, 2.00% to 5.00% through 2017	73,175	78,490
unamortized premium	5,373	8,316
Series 2012D-1, variable rate (.01%)* to fixed via swap through 2025	69,980	72,930
deferred amount on refunding	(14,409)	(16,563)
Series 2012D-2, variable rate (.07%)* to fixed via swap through 2026 and variable rate 2027 through 2030	75,085	78,930
deferred amount on refunding	(5,529)	(6,503)
Series 2012E**, variable rate (.50%)* through 2033	95,970	95,970
Series 2012F**, variable rate (.47%)* through 2043	100,970	100,970
Series 2010A, taxable-Build America Bonds, 4.926% to 5.593% through 2040	163,110	163,110
Series 2010C, 2.00% to 5.00% through 2027	149,970	160,695
unamortized premium	9,650	11,165
Series 2010D, taxable-Build America Bonds, 1.051% to 5.333% through 2041	189,095	196,910
Series 2009A, 3.00% to 5.00% through 2029	63,870	71,800
Series 2009B, variable rate (.08%)* through 2039	118,710	118,710
unamortized premium	5,430	5,842
Series 2009D, taxable-Build America Bonds, 5.155% to 6.172% through 2030	89,815	89,815
Series 2008A, variable rate (.02%)* through 2038	105,810	105,810
Series 2008B, variable rate (.06%)* to fixed via swap through 2026 and variable rate 2027 through 2028	89,725	95,605
Series 2005A, 5.00% through 2018	3,045	7,870
unamortized premium	98	223
Series 2002, variable rate (.09%)* to fixed via swap through 2018 and variable rate 2019 through 2032	76,285	82,840
General Revenue Refunding Bonds:		
Series 2003, 3.50% to 5.00% through 2015		695
unamortized premium		7
	1,868,417	1,834,659
Less:		
Commercial paper and current portion of bonds payable	201,146	107,860
Long-term bonds payable subject to remarketing, net	336,374	319,479
	$ 1,330,897	$ 1,407,320

* Denotes variable rate at June 30, 2015
** Denotes variable rate bonds not subject to remarketing

Certain variable rate bonds 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, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Variable rate bonds payable subject to remarketing	$ 650,595	$ 669,825
Less:		
Current principal maturities	20,075	19,230
Long-term liquidity agreements:		
Unsecured line of credit	150,000	150,000
Standby bond purchase agreements	144,146	181,116
Long-term bonds payable subject to remarketing, net	$ 336,374	$ 319,479

The University's available line of credit and standby bond purchase agreements were entirely unused at June 30, 2015.

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 for the years ended June 30, 2015 and 2014 is summarized as follows:

2015

(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 41,090	$ 136,915	$ 39,515	$ 138,490
Bonds	1,793,569		63,642	1,729,927
	$ 1,834,659	$ 136,915	$ 103,157	$ 1,868,417

2014

(in thousands)	Beginning Balance	Additions	Reductions	Ending Balance
Commercial paper	$ 55,340	$ 2,175	$ 16,425	$ 41,090
Bonds	1,751,562	100,732	58,725	1,793,569
	$ 1,806,902	$ 102,907	$ 75,150	$ 1,834,659

The University maintains a combination of variable and fixed rate debt supported by general revenues, with effective interest rates that averaged 2.1 percent in both 2015 and 2014, including 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 2014, the University issued $92,285,000 of fixed rate General Revenue Bonds (Series 2014A and Series 2014B) with a net original issue premium of $8,447,000. Total bond proceeds of $100,732,000 were utilized to provide $100,310,000 for capital projects and $422,000 for debt issuance costs.

During 2014, unamortized bond issuance costs totaling $7,559,000 were written off to interest expense in connection with the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

NOTE 6–LONG-TERM DEBT, CONTINUED

Debt obligations are generally callable by the University and mature at various dates through fiscal 2044. Principal maturities, including amortization of deferred amounts on refunding 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
2016	$ 195,760	$ 43,714	$ 239,474
2017	121,845	42,195	164,040
2018	54,475	37,510	91,985
2019	55,335	36,002	91,337
2020	56,580	34,565	91,145
2021-2025	320,240	149,536	469,776
2026-2030	338,130	99,713	437,843
2031-2035	351,965	57,268	409,233
2036-2040	301,680	27,113	328,793
2041-2044	61,485	2,730	64,215
	1,857,495	$ 530,346	$ 2,387,841
Plus unamortized premiums	30,860		
Less deferred amount on refunding	19,938		
	$ 1,868,417		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2015; 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 2016 would increase to $532,134,000, total principal payments due in 2017 would increase to $317,841,000, total principal payments due in 2018 would increase to $84,260,000 and total principal payments due in 2019 would increase to $60,480,000. Accordingly, principal payments due in subsequent years would be reduced to $35,570,000 in 2020; $190,865,000 in 2021 through 2025; $242,180,000 in 2026 through 2030; $189,410,000 in 2031 through 2035; $164,965,000 in 2036 through 2040; and $39,790,000 in 2041 through 2044. There would not be a material impact on annual interest payments due to the low variable rate of interest on these bonds.

NOTE 7–DERIVATIVE INSTRUMENTS

Derivatives held by the University are recorded at fair value in the statement of net position in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"). For hedging derivative instruments that are effective in significantly reducing an identified financial risk, as defined by GASB 53, the corresponding change in fair value is deferred and included in the statement of net position. 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, 2015 and 2014 are summarized as follows:

	2015		2014	
(in thousands)	Notional Amount	Fair Value	Notional Amount	Fair Value
Investment Derivative Instruments:				
Investment portfolios:				
Futures	$ 571,891	$ (2,238)	$ (88,380)	$ (563)
Foreign currency forwards	2,173,950	(977)	1,973,999	7,875
Other	28,763	9,546	11,215	(27)
	$ 2,774,604	$ 6,331	$ 1,896,834	$ 7,285
Floating-to-fixed interest rate swap on debt	$ 21,655	$ (971)	$ 28,210	$ (1,480)
Effective Cash Flow Hedges:				
Floating-to-fixed interest rate swaps on debt	$ 193,615	$ (27,377)	$ 206,280	$ (29,212)

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 currencies and manage foreign exchange risk. Other 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.

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 generally represents the estimated amount that the University would pay to terminate the swap agreements at the statement of net position 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 53, an interest rate swap is considered an effective cash flow hedge if the swap payments received substantially offset the payments made on the associated debt. An interest rate swap that is not considered an effective cash flow hedge is deemed to be an investment derivative instrument and changes in fair value are recorded as net investment income (loss).

At June 30, 2015 and 2014, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is a liability of $28,348,000 and $30,692,000, respectively, and is included in the statement of net position as part of noncurrent other liabilities. The deferred outflow of resources for the fair value of swaps deemed effective cash flow hedges totaled $7,439,000 and $6,146,000, at June 30, 2015 and 2014, respectively, and is included in the statement of net position as part of noncurrent other assets. Three bond issues were refunded in 2013 and the deferred outflow of resources related to the effective cash flow hedges associated with these bonds was reclassified to deferred amount on refunding and net against bonds payable. The deferred amount on refunding is being amortized into interest expense over the remaining term of the refunding bonds and totaled $19,938,000 and $23,066,000 at June 30, 2015 and 2014, respectively.

NOTE 7–DERIVATIVE INSTRUMENTS, CONTINUED

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Investment Derivative Instruments:		
Investment portfolios:		
Futures	$ 18,584	$ (4,223)
Foreign currency forwards	(3,836)	334
Other	(82)	3,338
	$ 14,666	$ (551)
Floating-to-fixed interest rate swap on debt	$ 509	$ 589
Effective Cash Flow Hedges:		
Floating-to-fixed interest rate swaps on debt	$ 1,835	$ 2,854

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

The floating-to-fixed interest rate swap associated with the Series 2008B General Revenue Bonds has a notional amount of $73,010,000 and $78,890,000 at June 30, 2015 and 2014, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. Effective 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 days 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, 2015 and 2014 and has a fair value of ($7,766,000) and ($8,339,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2005B Hospital Revenue Bonds has a notional amount of $50,765,000 and $54,605,000 at June 30, 2015 and 2014, respectively. The Series 2005B Hospital Revenue Bonds were refunded on February 1, 2013, and the swap is now associated with the Series 2012D-2 General Revenue Bonds. Effective 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 days 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, 2015 and 2014 and has a fair value of ($5,258,000) and ($5,759,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2002 General Revenue Bonds has a notional amount of $21,655,000 and $28,210,000 at June 30, 2015 and 2014, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. Effective 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 days written notice and payment of the fair market compensation for the value of the swap. This swap is not considered an effective hedge at June 30, 2015 and 2014 and has a fair value of ($971,000) and ($1,480,000), 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 both June 30, 2015 and 2014 tied to the outstanding balance of the bonds. The Series 1998A-2 Hospital Revenue Refunding Bonds were refunded on January 4, 2013, and the swap is now associated with the Series 2012D-1 General Revenue Bonds. Effective 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, 2015 and 2014 and has a fair value of ($11,016,000) and ($11,076,000), 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 $25,170,000 and $28,115,000 at June 30, 2015 and 2014, respectively, tied to the outstanding balance of the bonds. The Series 1998A-1 Medical Service Plan Revenue Refunding Bonds were refunded on January 4, 2013, and the swap is now associated with the Series 2012D-1 General Revenue Bonds. Effective 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 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, 2015 and 2014 and has a fair value of ($3,337,000) and ($4,038,000), respectively.

Using rates in effect at June 30, 2015, the projected cash flows for the floating-to-fixed interest rate swaps deemed effective cash flow hedges, 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
2016	$ 13,205	$ 111	$ 6,792	$ 20,108
2017	13,775	104	6,316	20,195
2018	14,020	97	5,851	19,968
2019	13,770	90	5,370	19,230
2020	14,365	83	4,893	19,341
2021-2025	112,680	292	13,723	126,695
2026-2030	52,975	73	153	53,201
	$ 234,790	$ 850	$ 43,098	$ 278,738

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 its 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 as 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 subject to collateral requirements with its counterparties on certain derivative instrument positions. To meet trading margin requirements for bond futures, the University had cash and U.S. government securities with a fair value of $12,220,000 and $1,443,000 at June 30, 2015 and 2014, respectively, on deposit with its futures broker as collateral. To meet collateral requirements for a total return swap with a notional amount of $56,695,000 at June 30, 2013, the University posted cash collateral of $3,760,000, which was returned upon expiration of the total return swap in August 2013.

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. 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, 2015 and 2014 are summarized as follows:

(in thousands)	2015	2014
Balance, beginning of year	$ 194,664	$ 195,588
Claims incurred and changes in estimates	533,182	515,134
Claim payments	(534,941)	(516,058)
Balance, end of year	192,905	194,664
Less current portion	84,634	86,014
	$ 108,271	$ 108,650

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 39,000 full-time regular 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 regular University employees that 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 GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). 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.

The University implemented GASB 45 in 2008 and elected to amortize its initial unfunded actuarial accrued liability over one year, the minimum period allowed by the Statement. 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 liability for net postemployment benefits obligations recorded in the statement of net position will differ from the actuarial accrued liability by the unamortized portion of these changes. At June 30, 2015, the recorded liability for net postemployment benefits obligations and the actuarial accrued liability totaled $1,752,863,000 and $1,888,883,000, respectively.

Changes in the total reported liability for postemployment benefits obligations for the years ended June 30, 2015 and 2014 are summarized as follows:

	2015		
(in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	$ 1,580,898	$ 150,556	$ 1,731,454
Service cost	40,987	9,300	50,287
Amortization of assumption changes, plan changes and net actuarial (gains) losses	(86,474)	10,741	(75,733)
Interest cost	96,119	11,864	107,983
Payments of current premiums and claims	(42,692)	(18,436)	(61,128)
Balance, end of year	1,588,838	164,025	1,752,863
Less current portion	45,479	19,693	65,172
	$ 1,543,359	$ 144,332	$ 1,687,691

	2014		
(in thousands)	Retiree Health and Welfare	Long-term Disability	Total
Balance, beginning of year	$ 1,556,284	$ 141,807	$ 1,698,091
Service cost	44,762	7,721	52,483
Amortization of assumption changes, plan changes and net actuarial (gains) losses	(71,427)	6,923	(64,504)
Interest cost	94,622	11,174	105,796
Payments of current premiums and claims	(43,343)	(17,069)	(60,412)
Balance, end of year	1,580,898	150,556	1,731,454
Less current portion	47,826	18,436	66,262
	$ 1,533,072	$ 132,120	$ 1,665,192

Since a portion of retiree medical services will be provided by the University's Health System, the liability for postemployment benefits obligations is net of the related margin and fixed costs of providing those services which totaled $331,473,000 and $303,492,000 of actuarial accrued liability at June 30, 2015 and 2014, respectively. In accordance with GASB 45, the University's liability for postemployment benefits obligations at June 30, 2015 is not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods of approximately $157,000,000 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 $112,864,000 and $121,796,000 at June 30, 2015 and 2014, 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 postemployment benefits obligations at June 30, 2015, 2014 and 2013 as a percentage of covered payroll of $3,228,997,000, $3,083,357,000 and $2,979,189,000, was 54, 56 and 57 percent, respectively.

NOTE 9–POSTEMPLOYMENT BENEFITS, CONTINUED

The University's recorded liability for postemployment benefits obligations was calculated using the projected unit credit method. Significant actuarial methods and assumptions used in the valuation for the years ended June 30, 2015 and 2014 are as follows:

2015	Retiree Health and Welfare	Long-term Disability
Discount Rate	6.08%	7.88%
Immediate/Ultimate Administrative Trend Rate	0.0%/3.0%	0.0%/3.0%
Immediate/Ultimate Medical Trend Rate	6.0%-7.0%/4.5%	6.0%-7.0%/4.5%
Immediate/Ultimate Rx Trend Rate	6.5%/4.5%	6.5%/4.5%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Generational	2005 SOA Life Waiver (Modified)

2014	Retiree Health and Welfare	Long-term Disability
Discount Rate	6.08%	7.88%
Immediate/Ultimate Administrative Trend Rate	0.0%/3.0%	0.0%/3.0%
Immediate/Ultimate Medical Trend Rate	6.0%-8.0%/5.0%	6.0%-8.0%/5.0%
Immediate/Ultimate Rx Trend Rate	7.0%/5.0%	7.0%/5.0%
Expected Retirement Age (Faculty/Staff/Union)	66/62/61	Not Applicable
Mortality/Termination Table	RP-2000 Generational	2005 SOA Life Waiver (Modified)

The actuarial accrued liability is determined using current assumptions as of the valuation date, which may differ from those used to calculate the recorded liability. At June 30, 2015, the valuation of the actuarial accrued liability included the use of the RP-2014 White Collar mortality table.

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.

For payroll covered under the plan, eligible employees generally contribute 5 percent of their pay and the University generally contributes 10 percent of employees' pay to the plan. Effective January 1, 2015, the plan was modified for certain employees of the University's health system who now generally contribute 4.5 percent of their pay, with the University contributing 9 percent of those employees' pay to the plan. 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, 2015 are summarized as follows:

(in thousands)	2015	2014	2013
University contributions	$ 251,614	$ 245,973	$ 234,036
Employee contributions	$ 131,545	$ 127,815	$ 122,094
Payroll covered under plan	$ 3,228,997	$ 3,083,357	$ 2,979,189
Total payroll	$ 3,385,973	$ 3,230,004	$ 3,092,257

NOTE 11–NET POSITION

The composition of net position at June 30, 2015 and 2014 is summarized as follows:

(in thousands)	2015	2014
Net investment in capital assets	$ 3,782,130	$ 3,697,894
Restricted:		
Nonexpendable:		
Permanent endowment corpus	1,673,996	1,535,326
Expendable:		
Net appreciation of permanent endowments	1,708,175	1,725,281
Funds functioning as endowment	2,061,089	2,007,676
Restricted for operations and other	602,343	738,724
Unrestricted	3,468,074	3,353,173
	$ 13,295,807	$ 13,058,074

Unrestricted net position, as defined by GASB, is not subject to externally imposed stipulations; however, it is subject to internal restrictions. For example, unrestricted net position may be designated for specific purposes by action of management or the Board of Regents. At June 30, 2015 and 2014, all of the unrestricted net position has been designated for various academic programs, research initiatives and capital projects.

NOTE 12–FEDERAL DIRECT LENDING PROGRAM

The University distributed $303,638,000 and $327,598,000 for the years ending June 30, 2015 and 2014, 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 position includes a payable of $2,337,000 and $1,319,000 at June 30, 2015 and 2014, respectively, for DoED funding received prior to distribution.

NOTE 13–COMMITMENTS AND CONTINGENCIES

Authorized expenditures for construction and other projects unexpended as of June 30, 2015 were $827,937,000. Of these expenditures, the University expects that $737,917,000 will be funded by internal sources, gifts, grants and future borrowings, $72,781,000 by the State Building Authority and the remaining $17,239,000 will be funded using unexpended debt proceeds.

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, natural resources and absolute return strategies. As of June 30, 2015, the University had committed, but not paid, a total of $2,835,832,000 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):

2016	$ 1,013,288
2017	658,331
2018	461,464
2019	261,474
2020	173,038
2021 and beyond	268,237
	$ 2,835,832

NOTE 13–COMMITMENTS AND CONTINGENCIES, CONTINUED

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 capital and operating leases for certain space and equipment, which expire at various dates through 2039. Outstanding commitments for these leases are expected to be paid in the following years ended June 30:

(in thousands)	Capital	Operating
2016	$ 4,031	$ 27,727
2017	4,031	23,341
2018	4,031	17,438
2019	4,031	14,154
2020	3,325	11,995
2021-2025	14,954	29,334
2026-2030	15,171	777
2031-2035	15,932	212
2036-2039	13,248	
	78,754	$ 124,978
Less amount representing interest	40,767	
Present value of net minimum capital lease payments	$ 37,987	

Operating lease expenses totaled $35,821,000 and $35,921,000 in 2015 and 2014, 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 of these proceedings will not have a material adverse effect on its financial position.

NOTE 14–OPERATING EXPENSES BY FUNCTION

Operating expenses by functional classification for the years ended June 30, 2015 and 2014 are summarized as follows:

2015

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 844,505	$ 138,924			$ 983,429
Research	469,871	236,257			706,128
Public service	128,604	60,794			189,398
Academic support	207,878	58,304			266,182
Student services	79,609	24,447			104,056
Institutional support	161,661	49,570			211,231
Operations and maintenance of plant	35,588	242,159			277,747
Auxiliary enterprises	2,403,193	925,467			3,328,660
Depreciation			$ 493,629		493,629
Scholarships and fellowships				$ 132,758	132,758
	$ 4,330,909	$ 1,735,922	$ 493,629	$ 132,758	$ 6,693,218

2014

(in thousands)	Compensation and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 823,611	$ 130,339			$ 953,950
Research	472,939	235,828			708,767
Public service	101,342	51,426			152,768
Academic support	201,436	45,162			246,598
Student services	74,893	21,541			96,434
Institutional support	143,768	56,136			199,904
Operations and maintenance of plant	42,915	234,466			277,381
Auxiliary enterprises	2,289,944	843,651			3,133,595
Depreciation			$ 487,458		487,458
Scholarships and fellowships				$ 124,465	124,465
	$ 4,150,848	$ 1,618,549	$ 487,458	$ 124,465	$ 6,381,320

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