**NEW ISSUE** **RATINGS**
**BOOK-ENTRY-ONLY** **Moody's: "Aaa"**
**Standard & Poor's: "AAA"**

*In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, subject to compliance with certain covenants, under existing law, (i) interest on the Series 2014A Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the Series 2014A Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) the Series 2014A Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. In the opinion of Bond Counsel, under existing law, interest on the Series 2014B Bonds is not excludable from gross income for federal income tax purposes. Bond Counsel will express no opinion regarding the tax treatment of the interest on the Series 2014B Bonds under the laws of the State of Michigan. See "TAX MATTERS" herein and Appendix C hereto.*

# $92,285,000
# REGENTS OF THE UNIVERSITY OF MICHIGAN
## General Revenue Bonds

| $83,065,000 | $9,220,000 |
|---|---|
| Series 2014A | Series 2014B |
| (Tax-Exempt) | (Taxable) |

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

The General Revenue Bonds, Series 2014A (Tax-Exempt) (the "Series 2014A Bonds") and the General Revenue Bonds, Series 2014B (Taxable) (the "Series 2014B Bonds") will bear interest from their date of delivery at the rates, and shall mature on the dates and in the amounts, as shown on the inside cover of this Official Statement. The Series 2014A Bonds and the Series 2014B Bonds (collectively, the "Bonds") will be issued in denominations of $5,000 or integral multiples of that sum and will bear interest payable on April 1 and October 1, commencing October 1, 2014.

The Bonds are being issued pursuant to a Trust Agreement, dated as of February 1, 2014 (the "Trust Agreement"), between the Regents of the University of Michigan (the "Issuer") and U.S. Bank National Association, as trustee (the "Trustee"), for the purpose of paying a portion of the costs of certain capital projects of the Issuer and paying costs incidental to the issuance of the Bonds.

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of Bonds will be made in book-entry-only form. Beneficial Owners (hereinafter defined) will not receive certificates representing their interests in the Bonds purchased. Payments of principal of, premium, if any, and interest on the Bonds will be made by the Trustee to DTC and will be made to Beneficial Owners by DTC Participants or Indirect Participants.

The Bonds are subject to redemption prior to maturity as more fully described herein.

The Bonds are limited obligations of the Issuer, payable from and secured solely by an irrevocable pledge of General Revenues as provided in the Trust Agreement on a parity basis with the pledge of General Revenues securing certain outstanding indebtedness of the Issuer. The Bonds do not constitute a general obligation debt of the Issuer, the State of Michigan or any political subdivision of the State and neither the credit nor the taxing power of the State or any political subdivision of the State is pledged for the payment of the Bonds.

The Bonds are offered when, as and if issued by the Issuer and received by the Underwriter, subject to withdrawal or modification of the offer without notice and to the approval of legality by Miller, Canfield, Paddock and Stone, P.L.C., Detroit, Michigan, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York. It is expected that the Bonds in definitive form will be available for delivery through DTC on or about February 26, 2014.

## Barclays

The date of this Official Statement is February 12, 2014

## REGENTS OF THE UNIVERSITY OF MICHIGAN

### $83,065,000
### General Revenue Bonds, Series 2014A
### (Tax-Exempt)

| Due April 1 | Principal Amount | Interest Rate | Yield | CUSIP** (914455) |
|---|---|---|---|---|
| 2015 | $1,755,000 | 3.00% | 0.20% | MV9 |
| 2016 | 1,750,000 | 4.00 | 0.34 | MW7 |
| 2017 | 1,735,000 | 5.00 | 0.53 | MX5 |
| 2018 | 1,765,000 | 5.00 | 0.87 | MY3 |
| 2019 | 1,810,000 | 5.00 | 1.20 | MZ0 |
| 2020 | 1,875,000 | 5.00 | 1.62 | NA4 |
| 2021 | 1,950,000 | 5.00 | 1.99 | NB2 |
| 2022 | 2,030,000 | 5.00 | 2.28 | NC0 |
| 2023 | 2,115,000 | 5.00 | 2.48 | ND8 |
| 2024 | 2,195,000 | 5.00 | 2.62 | NE6 |
| 2025 | 2,330,000 | 5.00 | 2.82* | NF3 |
| 2026 | 2,455,000 | 5.00 | 2.95* | NG1 |
| 2027 | 2,755,000 | 4.25 | 3.12* | NH9 |
| 2028 | 2,905,000 | 4.25 | 3.26* | NJ5 |
| 2029 | 3,060,000 | 4.25 | 3.37* | NK2 |
| 2030 | 3,225,000 | 4.25 | 3.48* | NL0 |
| 2031 | 3,310,000 | 4.50 | 3.52* | NM8 |
| 2032 | 3,475,000 | 4.50 | 3.60* | NN6 |
| 2033 | 3,665,000 | 4.50 | 3.70* | NP1 |
| 2034 | 3,840,000 | 4.50 | 3.75* | NQ9 |
| 2035 | 2,700,000 | 4.50 | 3.81* | NT3 |
| 2036 | 2,840,000 | 4.50 | 3.86* | NU0 |

$9,075,000 5.00% Term Bonds Due April 1, 2039; Yield 3.95%*; CUSIP**: 914455 NR7
$18,450,000 5.00% Term Bonds Due April 1, 2044; Yield 4.08%*; CUSIP**: 914455 NS5

### $9,220,000
### General Revenue Bonds, Series 2014B
### (Taxable)

| Due April 1 | Principal Amount | Interest Rate | Price | CUSIP** (914455) |
|---|---|---|---|---|
| 2015 | $ 850,000 | 0.265% | 100% | NV8 |
| 2016 | 865,000 | 0.597 | 100 | NW6 |
| 2017 | 880,000 | 1.097 | 100 | NX4 |
| 2018 | 895,000 | 1.771 | 100 | NY2 |
| 2019 | 910,000 | 2.071 | 100 | NZ9 |
| 2020 | 930,000 | 2.622 | 100 | PA2 |
| 2021 | 945,000 | 2.922 | 100 | PB0 |
| 2022 | 965,000 | 3.216 | 100 | PC8 |
| 2023 | 980,000 | 3.416 | 100 | PD6 |
| 2024 | 1,000,000 | 3.516 | 100 | PE4 |

* Yield to April 1, 2024 first optional call date.
** CUSIP is a registered trademark of the American Bankers Association.

# REGENTS OF THE UNIVERSITY OF MICHIGAN
## General Revenue Bonds

### *Regents of the University of Michigan*

Mark J. Bernstein, Ann Arbor
Julia Donovan Darlow, Ann Arbor
Laurence B. Deitch, Bloomfield Hills
Shauna Ryder Diggs, Grosse Pointe
Denise Ilitch, Bingham Farms
Andrea Fischer Newman, Ann Arbor
Andrew C. Richner, Grosse Pointe Park
Katherine E. White, Ann Arbor
Mary Sue Coleman, *ex officio*

### *Executive Officers*

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Laura M. Patterson, *Associate Vice President for Information and Technology Services and Chief Information Officer*

Cheryl L. Soper, *CPA, Controller and Director of Financial Operations*

Laurita E. Thomas, *Associate Vice President for Human Resources*

### *Trustee*

U.S. Bank National Association
Detroit, Michigan

### *Bond Counsel*

Miller, Canfield, Paddock and Stone, P.L.C.,
Detroit, Michigan

The information in this Official Statement has been obtained from the Regents of the University of Michigan and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness. No dealer, salesperson or any other person has been authorized to give any information or to make any representation other than those contained in this Official Statement, and if given or made, such information or representations must not be relied upon as having been authorized by the Regents of the University of Michigan or the Underwriter. Any information or expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create an implication that there has been no change as to the affairs of the Regents of the University of Michigan since the date hereof.

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

CUSIP numbers appearing on the inside cover of this Official Statement are provided by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Capital IQ. The Regents of the University of Michigan is not responsible for the selection of CUSIP numbers and makes no representation as to their correctness on the Bonds or as set forth on the inside cover of this Official Statement.

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.**

**This Official Statement contains forward-looking statements, which can be identified by the use of the future tense or other forward-looking terms such as “may,” “intend,” “will,” “expect,” “anticipate,” “plan,” “management believes,” “estimate,” “continue,” “should,” “strategy,” or “position” or the negatives of those terms or other variations on them or by comparable terminology. In particular, any statements, express or implied, concerning future operating results or the ability to generate General Revenues or cash flow to service indebtedness are forward-looking statements. Investors are cautioned that reliance on any of those forward-looking statements involves risks and uncertainties and that, although the Issuer’s management believes that the assumptions on which those forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions also could be incorrect, and actual results may differ materially from any results indicated or suggested by those assumptions. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Official Statement should not be regarded as a representation by the Issuer that its plans and objectives will be achieved. All forward-looking statements are expressly qualified by the cautionary statements contained in this paragraph. The Issuer undertakes no duty to update any forward-looking statements.**

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## OFFICIAL STATEMENT

# $92,285,000
# REGENTS OF THE UNIVERSITY OF MICHIGAN
## General Revenue Bonds

| $83,065,000 Series 2014A (Tax-Exempt) | $9,220,000 Series 2014B (Taxable) |
|---|---|

## INTRODUCTION

This Official Statement, including the cover page and the Appendices, is furnished by the Regents of the University of Michigan (the "Issuer") to provide information concerning the offering of its $83,065,000 General Revenue Bonds, Series 2014A (Tax-Exempt) (the "Series 2014A Bonds") and its $9,220,000 General Revenue Bonds, Series 2014B (Taxable) (the "Series 2014B Bonds," and together with the Series 2014A Bonds, the "Bonds").

The Issuer is established under Article VIII, Section 5 of the Michigan Constitution of 1963 and is granted the general supervision of The University of Michigan (the "University") and control and direction of all expenditures of University funds. The Bonds are authorized and will be issued pursuant to a resolution adopted by the Issuer on December 19, 2013 (the "Resolution"), and a Trust Agreement, dated as of February 1, 2014 (the "Trust Agreement"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), for the purpose of paying a portion of the cost of certain capital projects of the Issuer and paying costs incidental to the issuance of the Bonds. See "THE PROJECTS" herein.

The Bonds are a limited obligation of the Issuer secured solely by and payable from an irrevocable pledge of General Revenues of the Issuer on a parity basis with certain outstanding debt of the Issuer. See "SECURITY FOR THE BONDS" for further information. The Bonds are not a general obligation of the Issuer, the State of Michigan or any political subdivision of the State and neither the credit nor the taxing power of the State or any political subdivision of the State is pledged for the payment of the Bonds.

The information contained in this Official Statement is provided for use in connection with the initial sale of the Bonds. The summaries of and references to all documents, statutes, reports and other instruments referred to in this Official Statement do not purport to be complete and are qualified in their entirety by reference to each document, statute, report or instrument. For a more detailed description of certain provisions of the Trust Agreement, see Appendix B – "Summary of Certain Provisions of the Trust Agreement."

Most capitalized words and terms used in this Official Statement are defined in the Trust Agreement and such words and terms are used herein as so defined. Certain words and terms are defined in this Official Statement in abbreviated form for convenience only and all such definitions are subject to the complete definitions set forth in the Trust Agreement. See Appendix B – "Summary of Certain Provisions of the Trust Agreement."

## THE BONDS

### General

The Series 2014A Bonds will be issued in the principal amount of $83,065,000 and the Series 2014B Bonds will be issued in the principal amount of $9,220,000. The Bonds of each series will be dated the date of their delivery and will bear interest at the rates and mature on the dates and in the amounts as set forth on the inside cover of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve thirty (30) day months. The Bonds will be issued in denominations of $5,000 or any integral multiple thereof.

Interest on the Bonds will be payable on each April 1 and October 1, commencing October 1, 2014 (each an "Interest Payment Date"), to each registered owner of the Bonds as of the close of business on the fifteenth ($15^{th}$) day of the calendar month immediately preceding any calendar month in which there occurs an Interest Payment Date, regardless of whether such day is a Business Day. So long as the Bonds are registered in book-entry-only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), interest on the Bonds will be payable by wire transfer in immediately available funds to Cede & Co., which will, in turn, remit such payment to the Direct Participants of DTC for subsequent disbursement to the Beneficial Owners of the Bonds. See "THE BONDS – Book-Entry Only System" herein.

### Redemption Provisions

*The Series 2014A Bonds*

<u>Optional Redemption</u>

The Series 2014A Bonds maturing on or after April 1, 2025 shall be subject to redemption prior to maturity at the election of the Issuer, in whole or in part, on any date on or after April 1, 2024, at a redemption price equal to one hundred percent (100%) of the principal amount of each Series 2014A Bond or portion thereof to be redeemed, plus accrued interest to the redemption date.

<u>Mandatory Redemption</u>

The Series 2014A Bonds maturing on April 1, 2039 and April 1, 2044 (the "Term Bonds") are subject to mandatory redemption on April 1 of each year at the principal amount thereof plus accrued interest, if any, without premium, as follows:

Term Bonds Due April 1, 2039

| Mandatory Redemption Date (April 1) | Mandatory Redemption Principal Amount |
|---|---|
| 2037 | $2,885,000 |
| 2038 | 3,025,000 |
| 2039 (Maturity) | 3,165,000 |

Term Bonds Due April 1, 2044

| Mandatory Redemption Date (April 1) | Mandatory Redemption Principal Amount |
|---|---|
| 2040 | $3,355,000 |
| 2041 | 3,515,000 |
| 2042 | 3,685,000 |
| 2043 | 3,865,000 |
| 2044 (Maturity) | 4,030,000 |

The principal amount of the Term Bonds to be redeemed pursuant to mandatory redemptions shall be reduced, in the order determined by the Issuer, by the principal amount of the Term Bonds of the same maturity that have been previously redeemed or called for redemption, other than pursuant to mandatory redemptions, or purchased or acquired by the Issuer and delivered to the Trustee for cancellation.

*The Series 2014B Bonds*

The Series 2014B Bonds shall be subject to redemption prior to maturity at the election of the Issuer, in whole or in part on any date, at a redemption price equal to the Make-Whole Redemption Price. The "Make-Whole Redemption Price" is equal to the greater of (i) 100% of the principal amount of the Series 2014B Bonds to be redeemed or (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the Series 2014B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2014B Bonds are to be redeemed, discounted to the date on which the Series 2014B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate, plus (a) 5 basis points with respect to Series 2014B Bonds maturing from 2015 to 2017, inclusive, (b) 10 basis points with respect to Series 2014B Bonds maturing in 2018 and 2019, and (c) 15 basis points with respect to Series 2014B Bonds maturing from 2020 to 2024, inclusive, plus, in each case, accrued interest on the Series 2014B Bonds to be redeemed to the redemption date.

Notwithstanding the foregoing, in no event shall the redemption price of Series 2014B Bonds to be redeemed as described above exceed 140% of the principal amount of the Series 2014B Bonds to be redeemed, plus accrued interest on the Series 2014B Bonds to be redeemed to the redemption date.

The "Treasury Rate" means, with respect to any redemption date for a particular Series 2014B Bond, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity, excluding inflation indexed securities (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two Business Days prior to the redemption date or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the Series 2014B Bond to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

The redemption price of Series 2014B Bonds to be redeemed pursuant to the make-whole optional redemption provision described above will be determined by an independent accounting firm, investment banking firm or financial advisor retained by the Issuer at the Issuer's expense to calculate such redemption price. The Trustee and the Issuer may conclusively rely on the determination of such redemption price by such independent accounting firm, investment banking firm or financial advisor and will not be liable for such reliance.

*Selection of Bonds to be Redeemed*

If fewer than all of the Bonds shall be called for redemption, the Issuer shall designate the series and maturities from which the Bonds are to be redeemed. Within the same series and maturity date, the particular Bonds or portions of Bonds to be redeemed shall be selected by lot by the Trustee in such manner as the Trustee in its discretion may determine. The portion of any Bond to be redeemed shall be in the principal amount of $5,000 or a multiple of $5,000. In selecting Bonds for redemption, the Trustee shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of the Bond by $5,000.

*Notice of Redemption*

In the event any of the Bonds are to be called for redemption, the Trustee shall give notice, in the name of the Issuer, of the redemption of such Bonds. Each notice shall (i) specify the Bonds to be redeemed by CUSIP number, date of issue, interest rate, maturity date, the redemption date, the redemption price and the place or places where amounts due upon such redemption will be payable (which shall be the principal office of the Trustee) and, if less than all of the Bonds are to be redeemed, the portions of such Bonds to be redeemed, and (ii) state that on the redemption date (if moneys are then available to pay the redemption price thereof) the Bonds or portions thereof to be redeemed shall cease to bear interest. Such notice may set forth any additional information relating to the redemption. Such notice shall be given by certified mail, return receipt requested, not less than thirty (30) days prior to the date fixed for redemption, to DTC and the Owners of Bonds or portions of Bonds to be redeemed at the addresses shown on the registration books of the Trustee as of the third day next preceding the date on which notice by mail is given, or, if any such day is not a Business Day, the Business Day next preceding such day. The failure to give notice by mail to any owner of any Bonds to be redeemed, or any defect therein, shall not affect the validity of the proceedings for redemption of any other Bonds for which notice to the owners was properly given. The failure to give notice by mail to DTC, or any defect therein, shall not affect the validity of the proceedings for redemption of any Bonds. Bonds called for redemption shall be redeemed upon presentation and surrender of such Bonds at the place or places of payment. The Trustee shall use its best efforts to mail, by the same means as the first notice, a second notice to Owners of Bonds who have not presented their Bonds for redemption within sixty (60) days after the date fixed for redemption.

**Book-Entry Only System**

The information in this sub-section has been furnished by The Depository Trust Company, New York, New York ("DTC"). No representation is made by the Issuer, the Trustee or the Underwriter as to the completeness or accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. No attempt has been made by the Issuer, the Trustee or the Underwriter to determine whether DTC is or will be financially or otherwise capable of fulfilling its obligations. Neither the Issuer nor the Trustee will have any responsibility or obligation to Direct Participants, Indirect Participants (both as defined below) or the persons for which they act as nominees with respect to the Bonds, or for any principal, premium, if any, or interest payment thereof.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

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

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein and in the Trust Agreement to the Bondholders, registered owners or owners (or similar terms) of the Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

THE INFORMATION SET FORTH ABOVE IN THIS SUB-SECTION "BOOK-ENTRY ONLY SYSTEM" HAS BEEN TAKEN FROM INFORMATION FURNISHED BY DTC. NO REPRESENTATION IS MADE BY THE ISSUER, THE TRUSTEE OR THE UNDERWRITER AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE ISSUER, THE TRUSTEE OR THE UNDERWRITER TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE ISSUER NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR THE PERSONS FOR WHICH THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS, OR FOR ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST PAYMENT THEREON.

The Issuer and the Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Bonds registered in its name for the purposes of payment of the principal of, premium, if any, or interest on the Bonds, giving any notice permitted or required to be given to registered owners under the Trust Agreement, registering the transfer of the Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. The Issuer and the Trustee shall not have any responsibility or obligation to any Direct or Indirect Participant, any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Direct or Indirect Participant, or any other person which is not shown on the registration books of the Issuer (kept by the Trustee) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Direct or Indirect

Participant; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal of, premium, if any, or interest on the Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Issuer; or other action taken by DTC as registered owner. Principal of, premium, if any, and interest on the Bonds will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the Direct or Indirect Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct or Indirect Participants.

**Transfer of the Bonds**

So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, beneficial ownership interests in the Bonds may be transferred only through a DTC Participant or Indirect Participant and recorded on the book-entry-only system operated by DTC.

## SECURITY FOR THE BONDS

The Bonds are limited obligations of the Issuer, payable from and secured solely by an irrevocable pledge of General Revenues and a security interest in and a lien on amounts in the Bond Payment Fund established by the Trust Agreement. The pledge of General Revenues constitutes a first lien thereon, on a parity basis with the lien thereon securing (i) the outstanding notes of the Issuer's $150,000,000 aggregate maximum principal amount of Commercial Paper Notes, Series E (Taxable) and Series I (Tax-Exempt) (collectively, the "CP Notes"), (ii) the outstanding bonds of the Issuer's $140,000,000 General Revenue Bonds, Series 2002 (the "Series 2002 Bonds"), $58,205,000 General Revenue Refunding Bonds, Series 2003 (the "Series 2003 Bonds"), $37,745,000 General Revenue Bonds, Series 2005A (the "Series 2005A Bonds"), $105,810,000 General Revenue Bonds, Series 2008A (the "Series 2008A Bonds"), $118,335,000 General Revenue Bonds, Series 2008B (the "Series 2008B Bonds"), $98,555,000 General Revenue Bonds, Series 2009A (the "Series 2009A Bonds"), $118,710,000 General Revenue Bonds, Series 2009B (the "Series 2009B Bonds"), $89,815,000 General Revenue Bonds, Series 2009D (the "Series 2009D Bonds"), $163,110,000 General Revenue Bonds, Series 2010A (the "Series 2010A Bonds"), $184,225,000 General Revenue Bonds, Series 2010C (the "Series 2010C Bonds"), $212,345,000 General Revenue Bonds, Series 2010D (the "Series 2010D Bonds"), $50,000,000 General Revenue Bonds, Series 2012A (the "Series 2012A Bonds"), $65,000,000 General Revenue Bonds, Series 2012B (the "Series 2012B Bonds"), $89,605,000 General Revenue Bonds, Series 2012C (the "Series 2012C Bonds"), $75,745,000 General Revenue Bonds, Series 2012D-1 (the "Series 2012D-1 Bonds"), $82,645,000 General Revenue Bonds, Series 2012D-2 (the "Series 2012D-2 Bonds"), $95,970,000 General Revenue Bonds, Series 2012E (the "Series 2012E Bonds"), $100,970,000 General Revenue Bonds, Series 2012F (the "Series 2012F Bonds") and $53,510,000 General Revenue Bonds, Series 2013A (the "Series 2013A Bonds," and together with the Series 2002 Bonds, the Series 2003 Bonds, the Series 2005A Bonds, the Series 2008A Bonds, the Series 2008B Bonds, the Series 2009A Bonds, the Series 2009B Bonds, the Series 2009D Bonds, the Series 2010A Bonds, the Series 2010C Bonds, the Series 2010D Bonds, the Series 2012A Bonds, the Series 2012B Bonds, the Series 2012C Bonds, the Series 2012D-1 Bonds, the Series 2012D-2 Bonds, the Series 2012E Bonds and the Series 2012F Bonds, the "Prior Bonds"), (iii) certain of the Issuer's obligations under certain standby bond purchase agreements relating to the Series 2002 Bonds, the Series 2008A Bonds, the Series 2008B Bonds and the Series 2012B Bonds (collectively, the "Standby Bond Purchase Agreements"), and (iv) the Issuer's obligations under a line of credit in the aggregate maximum available amount of $150,000,000 (the "Line of Credit").

As of December 31, 2013, the aggregate outstanding principal amount of the Prior Bonds was $1,738,590,000, and the aggregate outstanding principal amount of the CP Notes was $53,670,000.

The Issuer has also entered into five separate interest rate swap agreements with four different counterparties with respect to the variable rate debt service on portions of the Series 2002 Bonds, the Series 2008B Bonds, the Series 2012D-1 Bonds and the Series 2012D-2 Bonds (collectively, the "Existing Swap Agreements"). Under the Existing Swap Agreements, the Issuer is required to pay the counterparties a fixed rate of interest on the hedged portions of the Series 2002 Bonds, the Series 2008B Bonds, the Series 2012D-1 Bonds and the Series 2012D-2 Bonds, and the counterparties are required to pay the Issuer either a LIBOR based variable rate of interest or a variable rate of interest based on the SIFMA Municipal Swap Index. The aggregate notional amount of the Existing Swap Agreements as of December 31, 2013 was $246,365,000. The Existing Swap Agreements are subject to termination prior to maturity by the Issuer or the counterparties upon certain circumstances, subject to payment of early termination payments as stated therein. The Issuer's obligations under the Existing Swap Agreements are secured by General Revenues on a parity basis with the Bonds, the CP Notes, the Prior Bonds, the Standby Bond Purchase Agreements and the Line of Credit.

The Bonds, the CP Notes, the Prior Bonds, the Standby Bond Purchase Agreements, the Line of Credit, the Existing Swap Agreements and any additional parity obligations of the Issuer hereafter issued are herein called "Parity Bonds."

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE ISSUER, THE STATE OF MICHIGAN OR ANY POLITICAL SUBDIVISION OF THE STATE AND NEITHER THE CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE IS PLEDGED FOR THE PAYMENT OF THE BONDS.

**General Revenues**

Prior to December 20, 2012, the Issuer had outstanding: (i) its General Revenue Bonds, notes and other obligations payable from and secured by a pledge of General Revenues (the "General Revenue Bonds"); (ii) its Hospital Revenue Bonds, payable from and secured by a pledge of Hospital Gross Revenues; and (iii) its Senior Lien Indebtedness, payable from and secured by liens on certain portions of General Revenues on a senior basis to the liens on such portions of General Revenues securing the General Revenue Bonds.

On December 20, 2012, the Issuer issued the Series 2012D-1 Bonds, the Series 2012D-2 Bonds, the Series 2012E Bonds and the Series 2012F Bonds in part for the purpose of providing funds which were used, together with other available funds of the Issuer, to refund all of the Issuer's outstanding Hospital Revenue Bonds and Senior Lien Indebtedness. In connection with the refunding of all of the outstanding Hospital Revenue Bonds and Senior Lien Indebtedness, the pledge of the General Revenues and the pledge of the Hospital Gross Revenues were combined into a single revenue pledge. As a result, as of December 20, 2012, all Parity Bonds of the Issuer (including the Bonds described in this Official Statement) are payable from and secured by a first lien on the combined pledge of all General Revenues, on an equal and parity basis.

"General Revenues" consist of: all receipts from fees, charges, and income from all or any part of the students of the University, whether tuition, instructional fees, tuition surcharges, activity fees, general fees, health fees or other special purpose fees (before allowances for scholarships); all gross income, revenues and receipts from the ownership, operation and control of the housing, dining and auxiliary systems of the University (before allowances for scholarships); all unrestricted revenues from departmental activities; all Hospital Gross Revenues; all patient service revenues, including all faculty group practice revenues (formerly referred to as medical service plan revenues) (but excluding patient service revenues included in Hospital Gross Revenues); all unrestricted grants, gifts, donations and pledges, and receipts therefrom (including but not limited to indirect cost recoveries allocated to general operations); and unrestricted investment income; but excluding all of the following: (a) any deposits required by law or contract to be held in escrow; (b) appropriations from the State Legislature; (c)

Excluded Hospital Gross Revenues; and (d) revenues from The Veritas Insurance Corporation and Michigan Health Corporation. The lien of such pledge is valid against all parties having claims of any kind (except for the holders of any Parity Bonds), regardless of notice, and is valid and binding without physical delivery or further act by the Issuer.

"Hospital Gross Revenues" means all revenues, income, receipts and money received by or on behalf of the Issuer with respect to or arising from the operation of the Hospital, including but not limited to (a) gross revenues derived from its operation and possession of the Hospital and (b) proceeds with respect to, arising from or relating to the operation of the Hospital, and derived from (i) insurance, (ii) accounts receivable, (iii) disposition of inventory and other tangible and intangible property, (iv) medical or hospital expense reimbursement or insurance programs or agreements, (v) investment earnings or profits on funds held by the Issuer for the account or benefit of the Hospital and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Hospital by the Issuer, but excluding: faculty group practice or other physician, dentist or similar payments corresponding to fees for professional services received by the Hospital; allowances under contractual arrangements with third party payers; charges for services classified as charity care; and bad debts.

"Hospital" means all facilities now or hereafter owned, leased or operated, in whole or in part, by the Issuer (including any facility in which the Issuer directly or indirectly owns, leases or otherwise acquires a percentage or participating interest) and used for the provision of hospital services wherever located (but only to the extent that such facilities are used directly or indirectly for hospital services and only to the extent of the Issuer's percentage or participation interest).

"Excluded Hospital Gross Revenues" means all or any portion of Hospital Gross Revenues that the Issuer elects to exclude from the definition of "General Revenues" pursuant to the terms of the Trust Agreement, as described below. As of the date of issuance of the Bonds, there will be no Excluded Hospital Gross Revenues.

Under the terms of the Trust Agreement, the Issuer may, at any time and from time to time, and without the consent of the Holders of any of the Bonds, elect to exclude from the definition of "General Revenues" all or any portion of the Hospital Gross Revenues, subject to satisfaction of the following conditions:

(i) The Issuer shall file with the Trustee an Officer's Certificate (A) containing the election of the Issuer to exclude all or a portion of the Hospital Gross Revenues from General Revenues and, if less than all of the Hospital Gross Revenues are to be excluded from General Revenues, identifying the portion of Hospital Gross Revenues to be excluded by source, or by a specified amount or percentage of Hospital Gross Revenues, or by any similar measure as shall be determined by the Issuer, and (B) certifying that the total amount of General Revenues collected during the most recently completed Fiscal Year for which an audit has been completed, assuming that the Hospital Gross Revenues that the Issuer has elected to exclude from General Revenues were actually excluded from General Revenues at the beginning of such Fiscal Year, is not less than 100% of the highest Annual Debt Service requirements for such Fiscal Year or any subsequent Fiscal Year on the Outstanding Bonds and all other Parity Bonds; and

(ii) The Trustee shall have received an Opinion of Bond Counsel with respect to the proposed exclusion of Hospital Gross Revenues from General Revenues.

Upon satisfaction of the conditions set forth above for the exclusion of all or any portion of Hospital Gross Revenues from the definition of General Revenues, such Hospital Gross Revenues shall constitute "Excluded Hospital Gross Revenues" for purposes of the Trust Agreement, and such Excluded Hospital Gross Revenues shall be immediately released from the lien of the pledge of the General

Revenues granted by the Trust Agreement, and neither the Trustee nor the Holders of any of the Bonds shall have any further lien on or security interest in, or any further claim respect to, such Excluded Hospital Gross Revenues.

The Trust Agreement does not restrict the Issuer's ability to transfer any of the assets that produce any portion of the General Revenues, and if any such assets shall be transferred by the Issuer, the revenues produced by such assets will no longer be subject to the lien of the pledge of the General Revenues granted by the Trust Agreement. As provided in the Trust Agreement, if the Issuer shall transfer all or any portion of the Hospital assets to an entity that is controlled by the Issuer, the Issuer may, at its option, elect to continue to include the revenues produced by such assets in the pledge of General Revenues following the transfer. In such event, the ability of the controlled entity to grant a binding and perfected security interest in the revenues produced by the transferred Hospital assets will be governed by laws applicable to non-governmental entities, which may be more limited than the laws governing the pledge of General Revenues by the Issuer. See Appendix B – "Summary of Certain Provisions of the Trust Agreement – Sources of Payment and Security for the Bonds – Excluded Hospital Gross Revenues" and "– Transfer of Hospital Assets to Controlled Person" for additional information.

On or before each Interest Payment Date and each other date on which principal of, premium, if any, or interest on the Bonds is due and payable, the Issuer will pay to the Trustee for deposit in the Bond Payment Fund, from General Revenues, an amount sufficient to pay the principal of, premium, if any, and interest due on the Bonds on such Interest Payment Date or other date. The Issuer has covenanted and agreed in the Trust Agreement that to the extent that on any date the Issuer has failed to pay any amounts due under the Trust Agreement, the Issuer shall pay to the Trustee (for deposit in the Bond Payment Fund) and to the trustee or trustees for all other issues of Parity Bonds then outstanding (for deposit in the respective bond payment funds for such Parity Bonds) all General Revenues thereafter received by the Issuer (which payments shall be made promptly upon receipt of such General Revenues) until all amounts payable by the Issuer in respect of debt service on all Parity Bonds have been paid in full; provided, however, that in paying General Revenues as aforesaid, the amount of General Revenues so paid in each Fiscal Year shall be shared among the respective issues of the Parity Bonds then outstanding pro rata, based upon the respective amounts of debt service payable on each such issue of Parity Bonds during such Fiscal Year (without regard to the existence of any debt service reserve fund established for any issue of Parity Bonds). Subject to the above requirements, the Issuer shall have and retain the full right and ability to receive, collect, expend, invest, use or otherwise hold or dispose of General Revenues as the Issuer deems appropriate.

The rights and remedies of the holders of the Bonds may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those related to equitable subordination.

General Revenues of the Issuer for the Fiscal Years ended June 30, 2011, 2012 and 2013 are as follows:

**General Revenues**
**Fiscal Year Ended June 30**
**(in thousands)**

| | **2011** | **2012** | **2013** |
|---|---|---|---|
| Student tuition and fees* | $ 1,177,897 | $ 1,269,703 | $ 1,349,057 |
| Unrestricted sales and services of educational departments | 122,819 | 127,067 | 124,332 |
| Unrestricted revenues of auxiliary enterprises: | | | |
| Hospital Gross Revenues | 1,897,969 | 2,046,075 | 2,207,772 |
| Other patient care revenues** | 551,394 | 592,081 | 609,018 |
| Student residence fees*** | 108,444 | 113,155 | 107,043 |
| Other auxiliary revenues | 160,727 | 168,204 | 174,206 |
| Indirect cost recoveries | 251,170 | 249,816 | 255,666 |
| Student loan interest earned | 723 | 698 | 793 |
| Unrestricted private gifts | 878 | 1,460 | 1,498 |
| Unrestricted income from investments**** | 651,401 | 115,774 | 371,488 |
| **Total General Revenues** | **$ 4,923,422** | **$ 4,684,033** | **$ 5,200,873** |

* Before allowances for scholarships of $262,181 in 2011, $271,276 in 2012 and $284,386 in 2013.

** Other patient care revenues reflect patient care revenues not included in Hospital Gross Revenues or revenues of excluded facilities.

*** Before allowances for scholarships of $18,212 in 2011, $19,021 in 2012 and $18,008 in 2013.

**** Includes realized and unrealized investment gains/losses.

**Additional Parity Bonds**

The Issuer has reserved the right to authorize by resolution, issue and deliver, without limitation, additional Parity Bonds, as fixed rate indebtedness, variable rate indebtedness, other loan, debt or guarantee obligations, interest rate swaps, hedges or similar arrangements for any lawful purpose, secured by a lien on General Revenues on a parity basis with the lien thereon securing the Bonds, and to authorize by resolution, issue and deliver obligations secured by a subordinated lien on General Revenues or any portion thereof.

The Trust Agreement does not limit the Issuer's ability to issue debt payable from sources other than General Revenues.

## ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each fiscal year ending June 30, the amounts required for the payment of principal at maturity or by mandatory redemption of the Bonds and the payment of estimated interest on the Bonds, together with the estimated amounts required for the payment of debt service on the outstanding Parity Bonds (excluding the CP Notes).

| Fiscal Year Ending June 30 | The Bonds Principal | Interest | Total | Prior Bonds Debt Service[1] | Total Annual Debt Service[2] |
|---|---|---|---|---|---|
| 2014 | | | | $126,530,880 | $126,530,880 |
| 2015 | $2,605,000 | $4,515,451 | $7,120,451 | 125,816,659 | 132,937,110 |
| 2016 | 2,615,000 | 4,060,445 | 6,675,445 | 119,869,403 | 126,544,848 |
| 2017 | 2,615,000 | 3,985,281 | 6,600,281 | 182,255,584 | 188,855,865 |
| 2018 | 2,660,000 | 3,888,878 | 6,548,878 | 109,531,155 | 116,080,033 |
| 2019 | 2,720,000 | 3,784,777 | 6,504,777 | 108,168,580 | 114,673,357 |
| 2020 | 2,805,000 | 3,675,431 | 6,480,431 | 107,370,102 | 113,850,533 |
| 2021 | 2,895,000 | 3,557,297 | 6,452,297 | 108,065,244 | 114,517,540 |
| 2022 | 2,995,000 | 3,432,184 | 6,427,184 | 108,131,830 | 114,559,014 |
| 2023 | 3,095,000 | 3,299,649 | 6,394,649 | 106,963,082 | 113,357,731 |
| 2024 | 3,195,000 | 3,160,423 | 6,355,423 | 107,965,610 | 114,321,032 |
| 2025 | 2,330,000 | 3,015,513 | 5,345,513 | 106,861,619 | 112,207,131 |
| 2026 | 2,455,000 | 2,899,013 | 5,354,013 | 103,464,978 | 108,818,990 |
| 2027 | 2,755,000 | 2,776,263 | 5,531,263 | 106,541,555 | 112,072,818 |
| 2028 | 2,905,000 | 2,659,175 | 5,564,175 | 106,666,374 | 112,230,549 |
| 2029 | 3,060,000 | 2,535,713 | 5,595,713 | 83,338,351 | 88,934,064 |
| 2030 | 3,225,000 | 2,405,663 | 5,630,663 | 87,641,854 | 93,272,517 |
| 2031 | 3,310,000 | 2,268,600 | 5,578,600 | 89,989,700 | 95,568,300 |
| 2032 | 3,475,000 | 2,119,650 | 5,594,650 | 90,264,907 | 95,859,557 |
| 2033 | 3,665,000 | 1,963,275 | 5,628,275 | 84,989,669 | 90,617,944 |
| 2034 | 3,840,000 | 1,798,350 | 5,638,350 | 84,385,162 | 90,023,512 |
| 2035 | 2,700,000 | 1,625,550 | 4,325,550 | 84,539,800 | 88,865,350 |
| 2036 | 2,840,000 | 1,504,050 | 4,344,050 | 84,221,467 | 88,565,517 |
| 2037 | 2,885,000 | 1,376,250 | 4,261,250 | 75,632,822 | 79,894,072 |
| 2038 | 3,025,000 | 1,232,000 | 4,257,000 | 74,017,018 | 78,274,018 |
| 2039 | 3,165,000 | 1,080,750 | 4,245,750 | 52,323,594 | 56,569,344 |
| 2040 | 3,355,000 | 922,500 | 4,277,500 | 38,465,229 | 42,742,729 |
| 2041 | 3,515,000 | 754,750 | 4,269,750 | 28,750,623 | 33,020,373 |
| 2042 | 3,685,000 | 579,000 | 4,264,000 | 15,627,573 | 19,891,573 |
| 2043 | 3,865,000 | 394,750 | 4,259,750 | 4,289,950 | 8,549,700 |
| 2044 | 4,030,000 | 201,500 | 4,231,500 | | 4,231,500 |

(1) Interest on the hedged portions of the Prior Bonds is calculated at the fixed rates payable under the Existing Swap Agreements as described under "SECURITY FOR THE BONDS" above. Interest on the unhedged portions of the Prior Bonds bearing interest at variable rates is calculated at an assumed rate of 3.00%.

(2) Totals may not be exact due to rounding.

## THE PROJECTS

The Projects expected to be financed with the proceeds of the Series 2014A Bonds, together with other available funds of the Issuer, include: (i) A. Alfred Taubman Health Sciences Library Renovation; (ii) South Quadrangle Renovation; (iii) Wall Street East Parking Structure; and (iv) various other capital projects of or for the benefit of the University.

A. Alfred Taubman Health Sciences Library Renovation

The A. Alfred Taubman Health Sciences Library building currently houses the Taubman Health Sciences Library and some academic functions of the Medical School. By moving a large portion of less frequently used library collections off-site, the University is freeing up nearly two floors of the building for higher-priority academic needs. A renovation of approximately 137,000 gross square feet of space is planned to create a smaller library collection, increased health sciences instructional space including a clinical skills and simulation suite, and spaces for computing, study, and faculty and student services. A 6,000-gross-square-foot addition will be constructed to improve vertical circulation.

South Quadrangle Renovation

The project will renovate approximately 106,700 gross square feet of space, including the ground and first floors of South Quadrangle. The renovation will provide expanded student dining facilities for the Central Campus neighborhood and updated bathrooms throughout the building. New and reorganized spaces will revitalize the residence hall and create spaces for student interaction and community development, such as group study spaces, music practice rooms, and refurbished lounges. Infrastructure improvements within the renovated areas include: new plumbing, heating, cooling, ventilation, fire detection and suppression systems; wired and wireless high-speed network access; and accessibility improvements.

Wall Street East Parking Structure

Construction of the new parking structure will add 530 net vehicle spaces to the University's parking system near the medical campus. The project will provide for an attractive gateway to the Wall Street area and medical center campus with environmentally-sustainable features. The project includes an architecturally-detailed facade with open space at each end of the structure that will contain park-like landscaping with trees and gardens for storm water management which may also be used for irrigation and reduction of storm runoff to the river. The project also includes infrastructure for electric vehicle charging stations.

The Project expected to be financed with the proceeds of the Series 2014B Bonds, together with other available funds of the Issuer, consists of the Institute for Social Research Addition.

Institute for Social Research Addition

This project includes construction of a five-level addition of approximately 56,700 gross square feet and renovation where new construction attaches to the existing building of 12,800 gross square feet. The newly added research space is needed to address the institute's continued growth in programs and projects, including a significant increase in federally funded initiatives.

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Bonds will be applied to pay a portion of the costs of the Projects described above and to pay certain expenses incurred in connection with the issuance of the Bonds, in the currently estimated amounts as set forth below.

| | Series 2014A Bonds | Series 2014B Bonds | Total |
|---|---|---|---|
| Sources of Funds | | | |
| Principal Amount of the Bonds | $83,065,000.00 | $9,220,000.00 | $92,285,000.00 |
| Original Issue Premium | 8,447,098.20 | -- | 8,447,098.20 |
| Estimated Investment Earnings | 46,423.00 | -- | 46,423.00 |
| Total Sources | $91,558,521.20 | $9,220,000.00 | $100,778,521.20 |
| Uses of Funds | | | |
| Cost of the Projects to be Paid with Bond Proceeds | $91,178,033.57 | $9,178,617.26 | $100,356,650.83 |
| Costs of Issuance of the Bonds (including Underwriter's discount) | 380,487.63 | 41,382.74 | 421,870.37 |
| Total Uses | $91,558,521.20 | $9,220,000.00 | $100,778,521.20 |

# THE UNIVERSITY OF MICHIGAN

## General

The University of Michigan (the "University") was originally chartered in 1817 by the Michigan territorial legislature and located in Detroit. In 1837, after Michigan had been admitted to the United States, the State of Michigan renewed the charter and located the University in Ann Arbor, where classes were first held in 1841. The University provided educational services in the fall of 2013 to an enrollment of 61,268 students in the various undergraduate, graduate and professional divisions. For the academic year ending June 30, 2013, the University awarded 9,110 undergraduate, 5,972 graduate, and 838 professional degrees.

The main campus of the University is located in Ann Arbor, 43 miles west of Detroit. Major branches are also maintained in the cities of Dearborn and Flint, Michigan.

The University is comprised of nineteen degree granting schools and colleges in Ann Arbor: A. Alfred Taubman College of Architecture and Urban Planning; Penny W. Stamps School of Art & Design; Stephen M. Ross School of Business; School of Dentistry; School of Education; College of Engineering; Horace H. Rackham School of Graduate Studies; School of Information; School of Kinesiology; Law School; College of Literature, Science, and the Arts; Medical School; School of Music, Theater & Dance; School of Natural Resources and Environment; School of Nursing; College of Pharmacy; School of Public Health; Gerald R. Ford School of Public Policy; and School of Social Work. The Dearborn campus is comprised of four schools and colleges: the College of Arts, Sciences and Letters; College of Business; College of Engineering and Computer Science; and College of Education, Health and Human Services. The Flint campus is comprised of four schools and colleges: the College of Arts and Sciences, School of Education and Human Services, School of Health Professions and Studies, and School of Management.

Undergraduate programs in approximately 502 fields of study are offered by these three campuses. The University's accredited graduate professional programs include: architecture; art and design; business; chemistry; dentistry; dental hygiene; engineering; law; information and library studies; medicine; music, theater, and dance; nursing; pharmacy; physical therapy; public health; and social work. Programs of study leading to graduate and graduate professional degrees are provided by the University in approximately 547 fields of study.

## Accreditations and Memberships

The University is a member of the Association of American Universities, an organization of sixty-two of the leading research universities of the United States and Canada. Institutional accreditation is obtained from the North Central Association of Colleges and Schools. The University received its present accreditation on June 23, 2010 and is effective for ten years. All of the University's professional programs of study are fully accredited by the appropriate accrediting agencies.

## Regents of the University

The University is governed by the Regents of the University, consisting of eight members elected at large in the biennial state-wide elections and the President of the University who serves as an *ex officio* member. The Regents serve without compensation for overlapping terms of eight years. According to the Michigan Constitution of 1963, the Regents have "general supervision" of the institution and "the control and direction of all expenditures from the institution's funds."

Dr. Mary Sue Coleman, Ph.D., the thirteenth president of The University of Michigan, announced she will retire in 2014. She holds appointments of professor of biological chemistry in the Medical

School and professor of chemistry in the College of Literature, Science, and the Arts. In January 2014, with a unanimous vote of the Regents, Dr. Mark S. Schlissel, M.D., Ph.D., was appointed the 14th president of The University of Michigan. He will start as President on July 1, 2014.

**Facilities - Ann Arbor Campus**

*Academic and Administrative Facilities*. For fiscal year 2013, The University of Michigan had approximately 601 buildings used for academic instruction, research, patient care, athletics and administrative functions. These buildings are situated on the University's Ann Arbor Campus, which is located on 3,245 acres. The University has approximately 18,000 acres outside of Ann Arbor, including the Dearborn and Flint campuses.

In June 2009, the University completed the acquisition of the former Pfizer pharmaceutical research complex for approximately $114 million, which includes liabilities of approximately $6 million that were assumed as part of the purchase. This investment, which was funded primarily with Health System resources, provides a transformational opportunity for the University to develop and utilize the 30 buildings and 174 acres of land acquired. Known collectively as the North Campus Research Complex, these buildings with nearly 2 million square feet of sophisticated laboratory facilities and administrative space will provide much needed space for current research as well as help attract new projects and faculty to the University. Since 2009, $83 million of the facility was placed in service, leaving $31 million as property classified as held for future use at June 30, 2013. The remaining portion of the facility, especially laboratories, has longer activation timelines but will be the focus in 2014 and beyond.

Over time, the University has a sustained commitment to addressing its facilities' capital needs and selectively increasing its physical plant to meet new areas of research and teaching. Much of the major maintenance activity includes the updating of buildings' infrastructure and the structural needs that develop with the passage of time. Over the last decade, the University has invested an average of $530 million per year for renovation and replacement of buildings and related infrastructure. This past fiscal year was no exception, as the University completed more than 324 capital projects across campus, an investment of more than $411 million. In addition to the facilities previously described in the Projects section, a number of renovation and rehabilitation projects to protect the University's most important historical landmarks are currently underway.

The Lawyers' Club Building and John P. Cook Building Renovation project includes the renovation of the dormitory areas, approximately 92,000 gross square feet of space, and addresses infrastructure needs including new plumbing, heating, ventilation, fire detection and suppression systems, wired and wireless high-speed network access, and accessibility improvements. Although air conditioning was added, overall energy performance is targeted to exceed national energy efficiency standards by more than 30 percent. The renovation preserved the historic exterior of the buildings, and the "townhouse-style" entries to resident rooms were replaced with an interior connecting corridor within each building that increases safety, accessibility, and sense of community for the residents. In the club wing of The Lawyers' Club Building, approximately 67,000 gross square feet, the renovations include updating key infrastructure items integral with the dormitory wing, including new fire detection and suppression systems, and tuck-pointing of exterior masonry surfaces.

The State approved three University projects for $120 million total funding, $77 million by the State and $43 million by the University. The projects consist of the renovations of the George Granger Brown Memorial Laboratories in the Ann Arbor campus, Science Building and Computer Science Building in the Dearborn campus, and William R. Murchie Science Building in the Flint Campus. The 220,000-gross-square-foot George Granger Brown Memorial Laboratories houses the chemical, civil, materials sciences, and mechanical engineering departments. The renovation project will upgrade the entire building's fire detection, alarm and emergency power systems. Throughout the majority of the building, there will be a deep infrastructural renewal updating heating, ventilation, air conditioning, electrical, plumbing, roof, windows, and interior finishes. The Science Building and Computer Science Building Renovation project will create updated laboratory and classroom space for the Department of Natural Sciences within the Science Building. In order to accomplish this, approximately 20,000 gross square feet will be added to the building to create state-of-the-art laboratory spaces, a new elevator, loading dock core, and mechanical penthouse. The project also includes the complete renovation of the existing building for laboratories and classrooms. The William R. Murchie Science Building renovation of approximately 85,000 gross square feet of space will add instructional labs for chemistry and biology. The renovation will also update the building infrastructure, including a new fire alarm system, new emergency generator, upgraded telecommunications cabling, and select mechanical, lighting, exterior envelope, and accessibility improvements.

*Athletics.* Crisler Arena is a multi-purpose venue with a seating capacity of approximately 12,800 used for academic, athletic, and entertainment events. The renovation and expansion of Crisler Arena was designed to meet the highest priority infrastructure needs, including changes to accomodate accessible seats, improve circulation and egress, and to increase the number of restrooms and concession areas. The project includes complete seating replacement, and the addition of seating meeting the requirements of the Americans with Disabilities Act, relocation and widening of aisles, and addition of handrails to the aisles. The project provides new construction of 63,000 gross square feet that creates new spectator entrances, retail spaces, ticketing areas and a private club space.

*Health System Facilities*. The University of Michigan Health System is comprised of the University of Michigan Medical School; inpatient units with a total of 984 licensed beds; 34 health centers; and Michigan Health Corporation. The inpatient units include: University Hospital and Kellogg Eye Center; the Cardiovascular Center; and the new C.S. Mott Children's and Von Voigtlander Women's Hospitals.

The C. S. Mott Children's and Von Voigtlander Women's Hospitals Replacement Project, placed in service in the fall of 2011, provides a new, state-of-the-art inpatient and outpatient facility for children and women. An approximately 1,100,000 gross square foot facility consists of a clinic building of 9 floors and an inpatient building of 12 floors plus a helipad on the easternmost roof. The building includes inpatient space, clinic and office space. It is connected to the existing Taubman Health Center via a link and to the Simpson Parking Structure. The project included utility reconfigurations, roadway reconfigurations, landscaping, steam tunnel and ductbank extensions, and stormwater detention. The project was designed and built to meet LEED certification.

*Libraries.* The University houses library, museum, and archival collections of importance and breadth. Libraries, museums, and collections serve the academic community as a bridge to ideas, past and present; research resources generated over centuries; information in a variety of formats and delivery systems; and applications of modern digital technology. The total University of Michigan holdings reach approximately 13 million print and electronic volumes.

Within the purview of the Provost and Executive Vice President for Academic Affairs, the University of Michigan Ann Arbor Campus library system is administered centrally through the University Librarian and Dean of Libraries, and is composed of the following units: Area Programs Library, Art, Architecture and Engineering Library, Asia Library, Askwith Media Library, Biological Station Library, Buhr Remote Shelving Facility, Stephen S. Clark Library for Maps, Government Information and Data Services, Fine Arts Library, Sumner and Laura Foster Library, Taubman Health Sciences Library, Harlan Hatcher Graduate Library, MPublishing (including the Copyright Office, the institutional repository Deep Blue, and the University of Michigan Press), Museums Library, Music Library, Papyrology Collection, Shapiro Science Library, Shapiro Undergraduate Library, and Special Collections Library. In addition, the Digital Media Commons is also administered centrally through the Dean of Libraries.

Four major library units are maintained and administered separately from the University Library. They are the Bentley Historical Library, which houses the Michigan Historical Collections and the University Archives, reporting to the Provost and Executive Vice President for Academic Affairs; the Kresge Business Administration Library, reporting to the Dean of the School of Business Administration; the Law Library, reporting to the Dean of the Law School; and the William L. Clements Library, reporting to the Provost and Executive Vice President for Academic Affairs.

There are numerous smaller independent libraries as well. They include the Population Studies Center Library, the Transportation Research Institute Library, the Matthaei Botanical Gardens Library and Resource Center, and the Kelsey Museum Library.

In addition, the Gerald R. Ford Library and Museum, a presidential library operated by the National Archives and Records Administration (an agency of the United States Government), is physically housed on the University's North Campus.

*Technology Infrastructure.* The University of Michigan's information technology (IT) environment is a hybrid of distributed and centralized units. The University reorganized three campus-wide IT departments in 2009 into a single, comprehensive department -- Information and Technology Services (ITS). This unit provides technology, communications services and shared services in support of the institution's four campuses – Ann Arbor, Flint, Dearborn, and U-M Health System. ITS also manages the administrative information systems, executes the IT security strategy, and maintains various aspects of computing throughout the University. Medical Center Information Technology and Medical School Information Systems are responsible for maintaining the information technology of the University's Health System, including hospitals and Medical School. Many schools, colleges, and departments maintain in-house IT departments that collaborate with ITS to meet localized and/or specialized IT requirements. Flint and Dearborn campuses maintain their own IT areas.

As with IT operations, the University's IT infrastructure is also a distributed and centralized hybrid. The University operates three enterprise data centers that largely support the Health System and campus-at-large computing environments. There are numerous smaller data centers or server rooms located across campus. The University is significantly expanding its utilization of virtualization in a number of areas, including virtual servers using enterprise class hardware in secured data centers and virtual sites to allow students, faculty, and staff access to specialized software and applications from any Internet connection. The University was one of the original campus participants in a national green computing initiative. Now that the project commitment is fulfilled, the work has become a solely University-driven effort — more and more infrastructure decisions are made with energy-efficiency and lower energy costs as a primary driver.

Many of the University's enterprise administrative systems are based in PeopleSoft/Oracle applications. The University is making great strides in moving to an increasingly paperless environment. Students, employees, and managers are able to access self-service web-based interfaces to conduct many student, employee, and university business functions and to access online an ever-growing array of information, data, and resources. An extensive data warehouse provides predefined data sets encompassing core institutional sectors: students, physical plant, payroll, HR, financial, research, and development. In recent years, the University has greatly expanded its use of Business Intelligence to support data management needs on campus, enabling leaders to make more data-driven informed decisions and drive a more effective use of resources.

There are 29 ITS campus computing sites available for general use on the Ann Arbor campus. All campus computing sites are open to any student, faculty, and staff. There are additional restricted-use sites operated for specific units, schools, or colleges. There are also computing sites or community learning centers in all residence halls.

The University's most extensive and pervasive academic and learning technology is CTools, designed to help instructors, researchers, and students create course and project websites. CTools, built on open-source software, is an advanced web-based course and collaboration environment. The University participates in a consortium of over 100 schools and institutions that collaboratively maintains and enhances the application. Approximately 5,000-6,000 new course sites are established each fall and winter term in CTools (with roughly 70,000 total course sites in the system to date). These sites allow online student and instructor collaboration and discussion as well as transmission of assignments, tests, and other course materials. These sites can use any of several dozen features, including posting course syllabi, library reserves, grades, assignments, and collaborative sharing of documents and websites.

The strategic future around the University's IT environment is called NextGen Michigan. The goal of NextGen Michigan is to establish the University as leaders and best in providing a campus IT environment that supports the dramatic advancement of the University's academic, teaching, research, and clinical programs. To implement the NextGen Michigan strategy, the University has been improving the IT infrastructure and managing that infrastructure in a high-quality, cohesive manner through a shared services model. The shared services model depends on highly-capable organizations providing unified services across campus, rather than having smaller-scale IT services provided redundantly within many individual units. NextGen Michigan projects are highly aligned to the University's mission.

*Housing and Dining Facilities*. The University of Michigan has one of the largest campus housing systems in the country. Undergraduate student housing is provided in 16 residence halls (one currently closed for renovation) and three apartment complexes for a total of 9,400 beds in fall term 2013. Students are not required to live on campus, yet consistently 97 percent of incoming first-year students choose to reside in University Housing facilities. Single graduate and student family units consist of the law school residence and two apartment complexes, housing approximately 1,300 students. Dining facilities in several locations provide meals and food service for all undergraduate housing students and the law school residence, in addition to off-campus students who select a meal plan.

Launched in 2004, the Residential Life Initiatives (RLI) is a planned approach for the renewal, revitalization, and modernization of campus residential facilities. Following an extensive study of campus housing and dining at Michigan and peer institutions, recommendations have been executed for: (i) installation of life safety initiatives and information technology upgrades in all residence halls; (ii) construction of a new Hill Dining Center; (iii) construction of the North Quad Residential and Academic Complex that includes a new residence hall with 450 beds and a dining hall; (iv) renovation of residence halls Mosher Jordan, Stockwell, Couzens, Alice Lloyd, Vera Baits II, East Quadrangle, South Quadrangle and West Quadrangle. The RLI is funded primarily from student room and board rates, along with other university sources. Additionally, the renovation of the Lawyers Club (law school residence) and construction of a single graduate residence (to open in 2015) on central campus have been chiefly funded by a single benefactor and augmented by university funding.

Student response to the renovations of campus residences and dining halls, and the addition of North Quad and new dining facilities, has been extremely favorable. Residential students not only desire the more contemporary living and dining facilities on campus, but also endorse the greater connection between living and learning fostered by dynamic study spaces and programmatic advancements in the residential communities. For the past several years, all residence halls and apartments have been at full occupancy (except halls that have been closed for renovation). The current demand for single graduate and family housing exceeds University Housing capacity. The number of off-campus students contracting for meal plans continues to increase.

*Other Facilities*. Some of the University's other facilities include museums of natural history, archaeology, art, anthropology, paleontology, and zoology; University Herbarium; Matthaei Botanical Gardens; and Nichols Arboretum. These facilities, with the exception of the Herbarium, are open to the public.

**Faculty and Staff**

The University's faculty and staff employee headcount totaled 46,319 as of November 2013. Members of the University's faculty totaled 6,898 and consisted of 1,795 professors, 929 associate professors, 908 assistant professors and instructors, 1,437 lecturers, and 1,829 supplemental faculty members. Of the total faculty, 3,547 staff held tenure or tenure-track appointments.

Eight unions are presently recognized at The University of Michigan, covering approximately 12,776 trades, nursing staff, service/maintenance employees, house officers, operating engineers, police/security, non-tenured track instructional staff (the Lecturer's Employees Organization) and graduate student assistants.

The Board of Regents voted to support the rights of graduate student research assistants to determine for themselves whether they choose to organize for purposes of collective bargaining. The Michigan Employment Relations Commission, in 1981, ruled that graduate student research assistants are not public employees for purposes of collective bargaining. In response to a representation petition filed by a union, the Michigan Employment Relations Commission ordered an evidentiary hearing on whether graduate student research assistants are employees under the Public Employment Relations Act, and thus are able to vote on the question of unionization. The hearing was completed in February, 2012, but the Michigan Employment Relations Commission has not issued a decision. Effective March 13, 2012, the Public Employment Relations Act was amended to exclude graduate student research assistants from the statute's definition of public employees. Litigation seeking to enjoin the immediate effect of the amendment was filed in state court. On appeal, the Michigan Court of Appeals denied the injunction and leave to appeal was denied by the Michigan Supreme Court. Litigation seeking to have the amendment declared unconstitutional was filed in federal court. The federal district court ruled that the amendment to the Public Employment Relations Act was unconstitutional under the Michigan Constitution, and declared the amendment invalid and unenforceable.

| Bargaining Unit | Contract Expiring |
|---|---|
| American Federation of State, County and Municipal Employees | June 30, 2017 |
| Graduate Employees Organization - American Federation of Teachers | May 1, 2017 |
| International Union of Operating Engineers | November 18, 2017 |
| Lecturer's Employees Organization | April 20, 2018 |
| Michigan Nurses Association and University of Michigan Professional Nurses Association | June 30, 2018 |
| Police Officers Association of Michigan | December 16, 2017 |
| University of Michigan House Officers Association | June 30, 2017 |
| University of Michigan Skilled Trades Union | May 31, 2015 |

The University considers its relations with its employees to be good.

**Student Enrollment**

The University's Ann Arbor campus student population is drawn from throughout the world. In the fall term of 2013, approximately 33 percent of Ann Arbor campus undergraduate students resided in the United States but outside of Michigan; another 7 percent were international students. The students at the Dearborn and Flint campuses are predominantly Michigan residents. The total number of students (undergraduate, graduate and professional) attending the University of Michigan's three campuses during the last five years is shown in the following table.

**Total Enrollment**

| Fall Term | Ann Arbor | Dearborn | Flint | Total Enrollment |
|---|---|---|---|---|
| 2009 | 40,166 | 8,642 | 7,773 | 56,581 |
| 2010 | 41,924 | 8,885 | 8,138 | 58,947 |
| 2011 | 42,716 | 8,955 | 8,262 | 59,933 |
| 2012 | 43,426 | 9,083 | 8,289 | 60,798 |
| 2013 | 43,710 | 9,003 | 8,555 | 61,268 |

The University projects that total enrollment will remain stable at or near current levels. The following table indicates the total fall enrollment of undergraduate and graduate (including professional programs) students combined for all three campuses. Also indicated are the full-time equivalent and total annual credit hours for all students attending the University.

**Student Enrollment**

| Fall Term | Under-Graduate | Graduate and Professional | Total | Full-Time Equivalent | Annual Total Credit Hours |
|---|---|---|---|---|---|
| 2009 | 39,748 | 16,833 | 56,581 | 50,721 | 1,464,898 |
| 2010 | 41,125 | 17,822 | 58,947 | 52,872 | 1,499,721 |
| 2011 | 41,771 | 18,162 | 59,933 | 53,598 | 1,560,141 |
| 2012 | 42,513 | 18,285 | 60,798 | 54,558 | 1,581,685 |
| 2013 | 42,760 | 18,508 | 61,268 | 55,098 | 1,606,441 |

**Student Admissions**

The table below sets forth the total number of first year applications received and accepted, and the number of first year students enrolled at the Ann Arbor campus, for the fall terms indicated.

**Student Admissions**

| Fall Term | Applications Received | Admissions Granted | Percent Admitted | Students Enrolled | Percent Enrolled | Percent Applications Enrolled |
|---|---|---|---|---|---|---|
| 2009 | 29,965 | 14,970 | 50.0% | 6,079 | 40.6% | 20.3% |
| 2010 | 31,613 | 16,006 | 50.6% | 6,496 | 40.6% | 20.5% |
| 2011 | 39,584 | 16,073 | 40.6% | 6,251 | 38.9% | 15.8% |
| 2012 | 42,544 | 15,551 | 36.6% | 6,171 | 39.7% | 14.5% |
| 2013 | 46,813 | 15,571 | 33.3% | 6,225 | 40.0% | 13.3% |

Admission to the University continues to be highly competitive with the number of applications far exceeding the number of students admitted. Since 2005, applications for undergraduate admissions have shown an increasing trend with approximately one student admitted for every three applicants. Applications to the graduate schools are approximately four times greater than the number of students admitted. In the fall of 2013, the top quarter of first year students had an average 3.90 high school grade point average.

As of February 10, 2014, applications for the fall 2014 entering class are ahead of fall 2013. For freshman and transfer entry, 51,636 fall and summer term applications were created, a 4.6% increase over the same period in 2013. The vast majority of these are for the freshman class. The University's freshman target for summer and fall 2014 freshmen is 5,980, very similar to the fall 2013 target of 5,987. The University communicated its first round of admissions decisions in December of 2013, and will be sending further decisions between now and mid-April.

**Student Tuition and Fees**

For the 2013-14 academic year, Student Tuition and Fees in the Ann Arbor campus are as follows:

**Tuition and Fees**

| Student Tuition and Fees | Resident | Nonresident |
|---|---|---|
| Undergraduate (fewer than 55 credit hours) | $ 12,948 | $ 40,198 |
| Undergraduate (55 or more credit hours) | 14,618 | 43,036 |
| Graduate | 19,598 | 39,604 |
| Business Administration | 52,200 | 57,200 |
| Law | 49,540 | 52,540 |
| Dentistry | 33,336 | 52,182 |
| Medicine | 29,956 | 47,904 |

The cost of room and board to students for a two-person room in the 2013-14 academic year is $9,996 in the Ann Arbor campus. Students in the Ann Arbor campus are currently charged an additional $194 per academic year mainly for registration fees.

**Financial Operations of the University**

The financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). 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 The Veritas Insurance Corporation (a wholly-owned captive insurance company).

The University receives the major portion of its revenues from student tuition and fees, the State of Michigan, the Federal Government, and the University of Michigan Health System, which includes the University of Michigan Hospitals and Health Centers, University Medical School, Michigan Health Corporation, and other clinical activities.

The table on the next page presents the Consolidated Statement of Revenues, Expenses, and Changes in Net Position for fiscal years ended June 30, 2011, 2012 and 2013.

**Consolidated Statement of Revenues, Expenses, and Changes in Net Position**
**Fiscal Year Ended June 30**
**(in thousands)**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Student tuition and fees | $ 1,177,897 | $ 1,269,703 | $ 1,349,057 |
| Less: scholarship allowances | 262,181 | 271,276 | 284,386 |
| Net student tuition and fees | 915,716 | 998,427 | 1,064,671 |
| Federal grants and contracts | 930,436 | 901,764 | 914,012 |
| State and local grants and contracts | 4,464 | 4,154 | 8,514 |
| Nongovernmental sponsored programs | 138,007 | 139,840 | 153,440 |
| Sales and services of educational departments | 124,235 | 127,473 | 124,533 |
| Auxiliary enterprises: | | | |
| Patient care revenues (net of provision for bad debts of $89,466 in 2011, $105,618 in 2012, and $114,025 in 2013) | 2,411,131 | 2,601,803 | 2,786,063 |
| Student residence fees (net of scholarship allowances of $18,212 in 2011, $19,021 in 2012, and $18,008 in 2013) | 90,232 | 94,134 | 89,035 |
| Other revenues | 160,727 | 168,204 | 174,206 |
| Student loan interest income and fees | 2,818 | 2,772 | 2,808 |
| **Total Operating Revenues** | **4,777,766** | **5,038,571** | **5,317,282** |
| **Operating Expenses** | | | |
| Compensation and benefits | 3,633,765 | 3,804,225 | 3,965,030 |
| Supplies and services | 1,299,651 | 1,473,665 | 1,555,800 |
| Depreciation | 390,071 | 443,132 | 476,898 |
| Scholarships and fellowships | 114,316 | 121,040 | 123,287 |
| **Total Operating Expenses** | **5,437,803** | **5,842,062** | **6,121,015** |
| Operating loss | (660,037) | (803,491) | (803,733) |
| **Nonoperating Revenues (Expenses)** | | | |
| State educational appropriations | 361,879 | 307,582 | 315,921 |
| Federal Pell grants | 46,669 | 45,288 | 43,247 |
| Private gifts for other than capital and endowment purposes | 127,751 | 131,602 | 168,634 |
| Net investment income | 1,632,968 | 68,650 | 847,273 |
| Interest expense, net | (33,094) | (45,096) | (49,342) |
| Build America Bonds subsidy | 7,119 | 8,258 | 8,251 |
| **Total Nonoperating Revenues, Net** | **2,143,292** | **516,284** | **1,333,984** |
| Income (loss) before other revenues (expenses) | 1,483,255 | (287,207) | 530,251 |
| **Other Revenues (Expenses)** | | | |
| Capital gifts and grants | 24,907 | 51,934 | 134,498 |
| State capital appropriations | 843 | 100 | |
| Private gifts for permanent endowment purposes | 57,451 | 55,742 | 77,567 |
| Other | (5,182) | 8,366 | (12,384) |
| **Total Other Revenues, Net** | **78,019** | **116,142** | **199,681** |
| Increase (decrease) in net position | 1,561,274 | (171,065) | 729,932 |
| **Net Position, Beginning of Year** | 9,362,988 | 10,924,262 | 10,753,197 |
| **Net Position, End of Year** | **$ 10,924,262** | **$ 10,753,197** | **$ 11,483,129** |

For further information, see Appendix A – "Audited Financial Statements of the University."

**State of Michigan Finances**

The State continues efforts to diversify its economy and the success of that effort is marked by the share of employment in the State in the manufacturing sector that has fallen from 21.1 percent in 1990 to 19.2 percent in 2000 and 13.6 percent in 2013. Durable goods manufacturing still represents a sizable portion of the State's economy and the unemployment rate remains higher than the national average.

The present ratings of the State's general obligation bonds are Aa2 by Moody's Investors Service, Inc., AA- by Standard & Poor's Ratings Services and AA by Fitch, Inc.

Since the 2000 downturn, the State's economy experienced a faster decline than the general economy, mostly led by job losses in the manufacturing sector. As a result, since November of 2001, the State was forced to take a variety of measures to balance its general fund and school aid fund budgets each year, including midyear moves when revenues fell short of original projections. The actions taken included some revenue enhancements, a number of expenditure cuts, some one-time measures, including use of the State's Budget Stabilization Fund, accounting adjustments and changing the timing of revenue receipts.

In the category of expenditure cuts, there were significant reductions in appropriations to Michigan's public higher education institutions. The highest level of operating appropriations to Michigan's higher education institutions came in 2001-2002 and reached \$1.9 billion before starting to decline beginning in 2002-2003. Operating appropriations fell to \$1.4 billion for fiscal year 2011-2012. From 2001-2002 to 2011-2012, the University's final appropriations for operating purposes have fallen from approximately \$416 million to \$308 million.

Over the past decade, in the face of a continued weak Michigan economy, the University anticipated the reductions in State appropriations and planned accordingly. Tuition rate increases, net revenue increases from increased activity, and substantial expenditure reductions have balanced the cuts in State appropriations for the University. While not on the horizon, should further appropriation cuts be necessary, the University is well positioned to maintain its excellence even in the face of additional cuts from the State.

Since the 2012-2013 fiscal year, appropriations for higher education institutions have increased with the recovery in the State. For 2012-2013 the Legislature enacted an overall 3% increase in state appropriation for higher education institutions. The increase was allocated seventy five percent to performance metrics and twenty five percent to tuition restraint. The University received \$315.9 million in state appropriations a 2.7% increase, including \$8.3 million from the incentives.

For 2013-2014, the Legislature enacted a 1.8% increase in higher education ranging between 0.3% to 4.2% and was allocated based on performance metrics and a limit on tuition increases to less than 3.75%. The University is expected to receive \$321.7 million, a 1.8% increase.

At the State's Revenue Estimating Conference held on January 10, 2014, the consensus revenue estimates for 2013-2014 reflect increases of \$126.3 million in General Fund revenues and \$89.9 million in School Aid Fund revenues from the May 2013 estimate. For 2014-2015, the consensus estimates reflect an increase of 5% in General Fund revenues and an increase of 3.2% in School Aid Fund revenues from the revised estimate for fiscal year 2013-2014. The estimated increases in revenues in fiscal year 2015 reflect improvements in the economy and greater stability in business tax revenues.

The Governor presented its executive budget for fiscal years 2015 and 2016 on February 5, 2014. The proposed budget for fiscal year 2015 includes a 6.1% increase, the largest increase since fiscal year 2001, in operating appropriations for Michigan's higher education institutions. Half of the increase in funding is proportional to the funding levels in fiscal year 2011 and half is based on a performance funding formula. Under the proposed budget, universities would be required to limit tuition increases to 3.2% to receive the performance funding. For fiscal year 2016, operating appropriations are proposed to remain flat. The proposed operating appropriations for the University total $340.8 million, a 5.9% increase.

Signs of an improving economy are encouraging, but the University continues to monitor the State's fiscal health carefully.

The Michigan Constitution of 1963 limits the amount of total revenues of the State raised from taxes and certain other sources to a level for each fiscal year equal to a percentage of the State's personal income for the prior calendar year. In the event that the State's total revenues exceed the limit by one percent or more, the Michigan Constitution requires that the excess be refunded to taxpayers. The Michigan Constitution also effectively limits State spending for State programs, including appropriations to State universities, by annually requiring the proportion of total State spending paid to local units of government, as a group, to be maintained at not less than that proportion in effect in the State's 1978-79 fiscal year.

Further information with respect to the State's financial position and with respect to certain litigation which may have an impact on the State's finances may be obtained by a review of the State's Annual Financial Report, which may be obtained from the Department of Management and Budget, Office of Financial Management, State of Michigan, Lansing, Michigan 48909 and from a review of the Official Statements prepared by the State or its agencies in connection with debt offerings, which are normally filed with the Municipal Securities Rulemaking Board.

**Student Financial Aid**

The following table summarizes the financial aid provided to University students for the three years ending June 30, 2013. A substantial portion of funds provided are derived from sources outside the University. All programs furnished by the federal government and the State are subject to appropriation and funding by the respective legislatures.

**Student Financial Aid**
**Fiscal Year Ended June 30**
**(in thousands)**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Grants, Scholarships & Fellowships:* | | | |
| University/State (Primarily University) | $218,582 | $235,348 | $247,399 |
| Federal | 83,661 | 79,369 | 77,828 |
| Other | 92,466 | 96,620 | 100,454 |
| Total Grants, Scholarships & Fellowships* | 394,709 | 411,337 | 425,681 |
| Loans Issued:** | | | |
| Loans Managed by the University: | | | |
| Federal | 8,316 | 12,260 | 11,800 |
| University | 3,626 | 2,497 | 2,577 |
| Total Loans Managed by the University | 11,942 | 14,757 | 14,377 |
| Federal Direct Lending | 358,981 | 372,703 | 346,634 |
| Work-study | 7,185 | 6,589 | 5,096 |
| **Total Financial Aid to Students** | **$ 772,817** | **$ 805,386** | **$ 791,788** |

* Includes scholarship allowances of $280,393 in 2011, $290,297 in 2012, and $302,394 in 2013.

** Not included as Expenses and Revenues in the University's Financial Statements.

**Gifts, Grants, Contracts and Research Expenditures**

As of June 30, 2013, the University was engaged in approximately 6,800 separate research and other sponsored activities. Federal agencies continue to provide the largest portion of funds. The Department of Health and Human Services is the single largest sponsor. The following table sets forth the amounts of research expenditures during the past three fiscal years, identified by source.

**Research Expenditures Identified By Source**
**Fiscal Year Ended June 30**
**(in thousands)**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| **Federal Sources** | | | |
| Department of Commerce | $ 10,789 | $ 8,163 | $ 6,684 |
| Department of Defense | 62,738 | 68,729 | 74,157 |
| Department of Energy | 35,410 | 38,468 | 42,697 |
| Department of Health and Human Services | 594,079 | 546,056 | 541,143 |
| National Aeronautics and Space Administration | 15,340 | 17,684 | 21,182 |
| National Science Foundation | 74,247 | 80,080 | 89,705 |
| Department of Transportation | 7,782 | 10,767 | 17,246 |
| Other Federal Agencies | 24,368 | 25,104 | 24,892 |
| Total Federal Sources | 824,753 | 795,051 | 817,706 |
| **Nonfederal Sources** | | | |
| Foundations, Charities and Health Agencies | 37,373 | 38,889 | 46,337 |
| Industry | 40,840 | 42,823 | 48,910 |
| State, Local and Foreign Governments | 2,034 | 775 | 3,768 |
| Professional Societies and Associations | 6,303 | 7,136 | 8,263 |
| Other, including Other Schools and Universities | 10,693 | 9,307 | 9,827 |
| Total Nonfederal Sources | 97,243 | 98,930 | 117,105 |
| **University Funds** | 314,515 | 380,044 | 393,910 |
| **Total All Sources** | **$ 1,236,511** | **$ 1,274,025** | **$ 1,328,721** |

The research expenses reported in the table above differ from those reported in the Combined University financial statements primarily due to Departmental Research, which comes from University Funds. Departmental Research is treated as an instruction expenditure in the audited financial statements, and as a research expenditure for management reporting purposes. Expenditures from departmental research activities of the University of Michigan Medical School's Faculty Group Practice that operate in the Auxiliary Fund are included in the Volume of Research.

**The University of Michigan Health System**

The University of Michigan Health System ("UMHS") is comprised of three units: The University of Michigan Hospitals and Health Centers ("UMHHC"), the University of Michigan Medical School and Michigan Health Corporation. UMHS maintains a tradition of excellence in teaching, advancement of medical science and patient care, consistently ranking among the best health care systems in the nation. The leadership and management of the UMHS are provided by the University's Executive Vice President for Medical Affairs.

The UMHS entities have a tripartite mission focusing on clinical, research and medical and biomedical educational activities. As part of the clinical mission, UMHHC operates a 984-licensed bed hospital, several ambulatory care centers and various other health care programs in southeastern Michigan. UMHHC serves as the principal teaching facility of the Medical School, and the majority of physician services to UMHHC patients are provided by Medical School faculty in support of the educational missions. UMHHC also provides educational and clinical opportunities to students of the University's Schools of Nursing, Dentistry, Pharmacy and Public Health. The following table summarizes the UMHHC results of operations for the three years ended June 30, 2013:

**The University of Michigan Hospitals and Health Centers**
**Statement of Revenues, Expenses and Change in Net Assets**
**Fiscal Year Ended June 30**
**(in millions)**

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Operating revenues | $ 1,990.2 | $ 2,139.2 | $ 2,312.6 |
| Operating expenses | 1,937.2 | 2,150.3 | 2,313.6 |
| Operating income (loss) | 53.0 | (11.1) | (1.0) |
| Interest expense, net | ( 19.9) | (16.9) | (35.8) |
| Net investment income | 212.2 | 15.7 | 91.5 |
| Capital and permanent endowment gifts | 3.6 | (0.6) | (0.2) |
| Other nonoperating revenues, net | 2.4 | 3.0 | 13.4 |
| Net revenues (expenses) before transfers | 251.3 | (9.9) | 67.9 |
| Transfers to other University units, net | (102.4) | (105.4) | (104.2) |
| Increase (decrease) in net position | $ 148.9 | $ (115.3) | $ (36.3) |

Operating revenues increased in fiscal year 2013 due to continued growth in patient activity as well as increases in revenue per patient case. Operating expenses were higher in fiscal year 2013 primarily due to growth in patient activity as well as costs associated with significant projects, such as the implementation of the new electronic medical record and patient billing system (MiChart) and a full year of expenses related to the activation of the C.S. Mott Children's and Von Voigtlander Women's Hospitals, which was placed in service in December of fiscal year 2012. As a result, the 2013 operating income improved to nearly breakeven, compared to a loss of 0.5 percent of operating revenues during 2012.

A comparative summary of the UMHHC's patient activity statistics for the three years ended June 30, 2013 is as follows:

| | 2011 | 2012 | 2013 |
|---|---|---|---|
| Inpatient discharges | 44,864 | 44,924 | 45,429 |
| Patient days | 274,523 | 277,354 | 284,583 |
| Observation cases | 11,819 | 13,341 | 16,235 |
| Surgeries | 46,052 | 48,475 | 49,699 |
| Outpatient visits | 1,862,092 | 1,938,541 | 1,972,732 |

On December 3, 2013, UMHS and Allegiance Health, a 480-bed health system in Jackson, Michigan, announced that they had signed a letter of intent to affiliate. At that time, the parties stated:

"The proposed affiliation would expand on existing collaborations between the two health systems." As of the date of this Official Statement, the exact nature of the structure of the affiliation has not been determined. It is anticipated that if the affiliation is completed, UMHS will commit to make significant capital investments in new strategic initiatives at Allegiance Health over a seven year period, in addition to satisfaction of routine maintenance and replacement capital requirements.

**Private Sector Campaigns**

Comprehensive fund raising efforts at the University are directed toward support of annual programs and for longer term endowment and facility goals.

Private gift revenues totaled $356.6 million on a cash basis for the fiscal year ending June 30, 2013. The University receives private gifts from individuals, corporations, foundations, and other sources.

The Victors for Michigan campaign, launched on November 8, 2013 with a goal of $4 billion, represents the largest effort in the history of public higher education. The campaign has three priorities: provide financial support to guarantee that a diverse group of the world's brightest students will be able to study at the University; extend the academic excellence from the classroom into real-world experiences; and collaborate on bold new ideas to solve the world's most challenging problems.

The Michigan Difference campaign was publicly launched on May 14, 2004 and ended December 31, 2008 with a $2.5 billion goal in gifts, pledges and bequest intentions. This goal included $2.1 billion in cash and pledges and $400 million in new bequests. The campaign raised $2.7 billion in cash and pledges and $499 million in bequests, for a total of $3.2 billion or 128 percent of the goal.

**Endowment and Other Invested Funds**

Endowment and Other Invested Funds consist of the University's endowment funds, life income funds and long term insurance and benefit reserves. Endowment funds consist of both permanent endowments and funds functioning as endowments. Permanent endowments are those funds received from donors with the stipulation that the principal remain inviolate and be invested in perpetuity, while funds functioning as endowments are amounts that are allocated for long term purposes by the University, but the principal is expendable. The majority of the University's endowment funds are maintained in the University Endowment Fund ("UEF"), a unitized pool that represents a collection of approximately 7,800 separate funds. Distributions are made from the UEF based on the average value of UEF shares. Effective September 30, 2010, the distribution rate was lowered from 5.0 percent to 4.5 percent of the seven year average value of UEF shares, maintaining that distributions are limited to 5.3% of the current fair value. The lowering of the distribution rate, completed in December 2013, was implemented gradually by keeping quarter to quarter distributions per share unchanged when distributions would otherwise increase under the prior distribution rate policy. For additional information see "Appendix A – Audited Financial Statements of the University."

The following table sets forth the market value of the University's endowment funds, including the UEF, as of June 30 for each of the years indicated:

**The University Endowment Funds**
**(in thousands)**

| June 30 | Market Value |
|---|---|
| 2011 | $7,834,752 |
| 2012 | 7,691,062 |
| 2013 | 8,382,273 |

The unaudited market value of the University's endowment funds was $8.9 billion as of December 31, 2013. The total fair value of the University's endowment funds increased by 5.9% during the period June 30, 2013 through December 31, 2013.

**Physical Plant and New Construction**

During the past three fiscal years, the University's investment at cost in land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress increased from approximately $9.4 billion at June 30, 2011 to approximately $10.0 billion at June 30, 2013.

The following table reflects the investment on an original cost basis in plant, with recognition of accumulated depreciation for the periods indicated.

**Investment in Plant - Physical Properties Fund**
**(in thousands)**

| Year Ended June 30 | Gross Investment in Plant | Accumulated Depreciation | Net Investment In Plant |
|---|---|---|---|
| 2011 | $9,421,634 | $4,228,461 | $5,193,173 |
| 2012 | 9,667,214 | 4,329,550 | 5,337,664 |
| 2013 | 9,961,722 | 4,592,322 | 5,369,400 |

**Other Indebtedness of the University**

As of December 31, 2013 the University had $1,792,260,000 in obligations outstanding, including bond related interest rate swap transactions, secured by and payable from General Revenues.

In order to improve its liquidity support for several of its bond issues and commercial paper, the University has entered into one agreement providing a $150 million line of credit. The line of credit is secured by General Revenues. The University is not obligated to continue or maintain the line of credit and may, at its option, amend or terminate the line of credit without notice to, or the consent of, any party.

The University has also entered into certain standby bond purchase agreements to provide liquidity support for certain of its outstanding General Revenue Bonds. The standby bond purchase agreements are secured by General Revenues. The University may terminate the standby bond purchase agreements with notice to the holders of the related bonds and a mandatory tender of the related bonds.

**Capital Programs and Additional Financing in Fiscal Years 2014 and 2015**

The University has an ongoing capital improvement program consisting of new construction and renovation of existing facilities. These projects are expected to be funded from a variety of sources, including gifts, State appropriations, borrowings and University funds.

In addition to the Bonds, depending on market conditions, the University expects that it may issue approximately $255 million of additional indebtedness for athletics, academic buildings, housing, patient care and other projects in Fiscal Years 2014 and 2015.

**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 is eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA-CREF, or accounts with FMTC, and are fully vested.

Eligible employees generally contribute 5 percent of their pay and the University generally contributes an amount equal to 10 percent of employees' pay to the plan after one year of employment with the University. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by University contributions. The University is presently current in all amounts due with respect to TIAA-CREF and FMTC contributions.

**Postemployment Benefits**

The University provides retiree health and welfare benefits, primarily medical, prescription drugs, dental and life insurance coverage, to eligible retirees and their eligible dependents. Substantially all of the approximately 38,000 permanent University employees may become eligible for these benefits if they reach retirement age while working for the University. The University also provides income replacement benefits, retirement savings contributions and health and life insurance benefits to substantially all permanent employees, who are enrolled in a University sponsored long term disability plan and qualify to receive long term disability benefits. The postemployment benefits are provided through single-employer plans administered by the University.

During fiscal 2008, the University implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement requires accrual-based measurement and recognition of the cost of postemployment benefits ("OPEB") during the periods when employees render their services. Previously the University recognized obligations for most postemployment benefits as they were paid. The University elected to amortize the initial liability in one year and changes to the plan over 10 years. At June 30, 2013, the net OPEB obligation and the actuarial accrued liability totaled $1,698 million and $1,340 million respectively. The University accrued $80 million and paid $53 million for OPEB costs in fiscal 2013. By implementing a series of health benefits initiatives over the past eight years, the University has reduced its actuarial accrued liability by approximately $486 million as of June 30, 2013.

**Legal Claims**

The University is a party to various pending legal actions and other claims in the normal course of business. The University believes that the outcomes of these matters will not have a material adverse effect on its financial position.

## TAX MATTERS

### The Series 2014A Bonds

*The following is a summary of certain tax matters applicable to the Series 2014A Bonds only.*

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, the interest on the Series 2014A Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes) such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Bond Counsel is also of the opinion that, under existing law, the Series 2014A Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. Bond Counsel will express no opinion regarding any other federal or state tax consequences arising with respect to the Series 2014A Bonds and the interest thereon.

The opinions on federal and State of Michigan tax matters are based on the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer contained in the transcript of proceedings and which are intended to evidence and assure the foregoing, including that the Series 2014A Bonds are and will remain obligations the interest on which is excludable from gross income for federal and State of Michigan income tax purposes. The Issuer has covenanted to take the actions required of it for the interest on the Series 2014A Bonds to be and to remain excludable from gross income for federal and State of Michigan income tax purposes, and not to take any actions that would adversely affect that exclusion. Bond Counsel's opinion assumes the accuracy of the Issuer's certifications and representations and the continuing compliance with the Issuer's covenants. Noncompliance with these covenants by the Issuer may cause the interest on the Series 2014A Bonds to be included in gross income for federal and State of Michigan income tax purposes retroactively to the date of issuance of the Series 2014A Bonds. After the date of issuance of the Series 2014A Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal and State of Michigan income tax purposes of interest on the Series 2014A Bonds or the market prices of the Series 2014A Bonds.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to the excludability of interest on the Series 2014A Bonds from gross income for federal and State of Michigan income tax purposes but is not a guarantee of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel cannot give and has not given any opinion or assurance about the effect of future changes in the Internal Revenue Code of 1986, as amended (the "Code"), the applicable regulations, the interpretations thereof or the enforcement thereof by the IRS.

Ownership of the Series 2014A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Series 2014A Bonds. Bond Counsel will express no opinion regarding any such consequences.

*Tax Treatment of Accruals on Original Issue Discount Bonds*

Under existing law, if the initial public offering price to the public (excluding bond houses and brokers) of a Series 2014A Bond is less than the stated redemption price of such Series 2014A Bonds at maturity, then such Series 2014A Bond is considered to have "original issue discount" equal to the difference between such initial offering price and the amount payable at maturity (such Series 2014A Bonds are referred to as "OID Bonds"). Such discount is treated as interest excludable from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period) from the date of original issue with straight-line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such OID Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of OID Bonds who purchase such OID Bonds after the initial offering of a substantial amount thereof. Owners who do not purchase such OID Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such OID Bonds.

All holders of the OID Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition of an OID Bond to the extent such loss is attributable to accrued original issue discount.

*Amortizable Bond Premium*

For federal income tax purposes, the excess of the initial offering price to the public (excluding bond houses and brokers) at which a Series 2014A Bond is sold over the amount payable at maturity thereof constitutes for the original purchasers of such Series 2014A Bonds (collectively, the "Original Premium Bonds") an amortizable bond premium. Series 2014A Bonds other than Original Premium Bonds may also be subject to an amortizable bond premium determined generally with regard to the taxpayer's basis (for purposes of determining loss on a sale or exchange) and the amount payable on maturity or, in certain cases, on an earlier call date (such bonds being referred to herein collectively with the Original Premium Bonds as the "Premium Bonds"). Such amortizable bond premium is not deductible from gross income. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the taxpayer's yield to maturity determined by using the taxpayer's basis (for purposes of determining loss on sale or exchange) of such Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the taxpayer's adjusted basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such Premium Bonds.

All holders of the Premium Bonds should consult with their own tax advisors as to the amount and effect of the amortizable bond premium.

*Market Discount*

The "market discount rules" of the Code apply to the Series 2014A Bonds. Accordingly, holders acquiring their Series 2014A Bonds subsequent to the initial issuance of the Series 2014A Bonds will generally be required to treat market discount recognized under the provisions of the Code as ordinary taxable income (as opposed to capital gain income). Holders should consult their own tax advisors regarding the application of the market discount provisions of the Code and the advisability of making any of the elections relating to market discount allowed by the Code.

*Information Reporting and Backup Withholding*

Information reporting requirements apply to interest paid after March 31, 2007 on tax-exempt obligations, including the Series 2014A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing the Series 2014A Bonds through a brokerage account has executed a Form W-9 in connection with the establishment of such account no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2014A Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the IRS.

*Future Developments*

Bond Counsel's engagement with respect to the Series 2014A Bonds ends with the issuance of the Series 2014A Bonds and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Series 2014A Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Series 2014A Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit.

**No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals which could cause the interest on the Series 2014A Bonds to be subject directly or indirectly to federal or State of Michigan income taxation, adversely affect the market price or marketability of the Series 2014A Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. Legislative proposals have been advanced by the Obama administration and others that would limit the benefit of the exclusion from gross income of tax-exempt interest and would apply to tax-exempt bonds, including the Series 2014A Bonds, issued prior to the date of enactment of such legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal or State of Michigan tax legislation.**

**Further, no assurance can be given that any actions of the IRS, including, but not limited to, selection of the Series 2014A Bonds for audit examination, or the course or result of any examination of the Series 2014A Bonds, or other bonds which present similar tax issues, will not affect the market price of the Series 2014A Bonds.**

**Investors should consult with their tax advisors as to the tax consequences of their acquisition, holding or disposition of the Series 2014A Bonds, including the impact of any pending or proposed federal or State of Michigan tax legislation.**

**The Series 2014B Bonds (Taxable)**

*The following is a summary of certain tax matters applicable to the Series 2014B Bonds only.*

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, interest on the Series 2014B Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel will express no opinion regarding any other federal tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014B Bonds.

Bond Counsel will express no opinion regarding the tax treatment of the interest on the Series 2014B Bonds under the laws of the State of Michigan.

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series 2014B Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as the Treasury Regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Series 2014B Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the Series 2014B Bonds that are "U.S. holders" (as defined below), deals only with those Series 2014B Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold the Series 2014B Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of the Series 2014B Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Series 2014B Bond. A "non U.S. holder" is a holder (or beneficial owner) of a Series 2014B Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in the Treasury Regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

The Series 2014B Bonds will be treated for federal income tax purposes as a debt instrument. Accordingly, interest will be included in the income of a holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Although the Series 2014B Bonds are expected to trade "flat," that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the Series 2014B Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

The Series 2014B Bonds may be issued with "original issue discount" ("OID"). Accordingly, the Bondholder will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Series 2014B Bond. Thus, the Bondholder will be required to include OID in income as it accrues, prior to the receipt of cash attributable to such income. U.S. holders, however, would be entitled to claim a loss upon maturity or other disposition of such Series 2014B Bond with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss.

A Bondholder that has a basis in the Series 2014B Bond that is less than its adjusted issue price (generally its accreted value) will be considered to have purchased the Series 2014B Bond with "market discount" unless such difference is considered to be "de minimis." Absent an election to accrue market discount currently, upon sale or exchange of a Series 2014B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred.

A Bondholder that has a basis in the Series 2014B Bond that is greater that its adjusted issue price (generally its accreted value), but that is less than or equal to its principal amount, will be considered to have purchased the Bond with "acquisition premium." The amount of OID that such Bondholder must include in gross income with respect to such Series 2014B Bond will be reduced in proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the Series 2014B Bond.

A Bondholder may have a basis in the Series 2014B Bond that is greater that the principal amount of such Series 2014B Bond. A Bondholder that has a basis in the Series 2014B Bond that is greater than the principal amount of the Series 2014B Bond should consult its own tax advisors with respect to whether or not it should elect to amortize such premium under Section 171 of the Code.

Upon a sale, exchange or retirement of a Series 2014B Bond, a Bondholder generally will recognize taxable gain or loss on such Series 2014B Bond equal to the difference between the amount realized on the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Bondholder's adjusted tax basis in such Series 2014B Bond. Defeasance of the Series 2014B Bonds may result in a reissuance thereof, in which event an owner will also recognize taxable gain or loss as described in the preceding sentence. Such gain or loss generally will be capital gain (although, as discussed above, any gain attributable to accrued market discount of the Series 2014B Bond not yet taken into income will be ordinary). The adjusted basis of the Bondholder will (in general) equal its original purchase price decreased by any principal payments received on the Series 2014B Bond. In general, if the Series 2014B Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

In additional to regular income tax, certain non-corporate U.S. holders will owe a 3.8 percent tax on the lesser of (i) "net investment income" or (ii) the excess of "modified adjusted gross income" of the Bondholder over $200,000 for unmarried individuals ($250,000 for married couples filing jointly and a surviving spouse). Bondholders should consult with their own tax advisors regarding the application of such net investment income tax.

Payments on the Series 2014B Bonds to a non-U.S. holder that has no connection with the United States other than holding its Series 2014B Bond generally will be made free of withholding tax, as long as that holder has complied with certain tax identification and certification requirements.

*Circular 230*

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The tax discussion above was written to support the promotion or marketing of the Series 2014B Bonds.

## LITIGATION

At the time of delivery of the Bonds, the Issuer will certify that there is no litigation or other proceeding pending or, to the knowledge of the Issuer, threatened, in any court, agency or other administrative body restraining the issuance of the Bonds, or in any way affecting the validity of any provision of the Bonds, the Trust Agreement or the Resolution authorizing the Bonds.

## CREDIT RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") have assigned long-term ratings to the Bonds of "Aaa" and "AAA," respectively. A further explanation of the rating by Moody's may be obtained from such agency at 7 World Trade Center at 250 Greenwich Street, New York, New York 10007, and a further explanation of the rating by S&P may be obtained from such agency at 55 Water Street, New York, New York 10041.

These ratings reflect only the view of such rating agencies and an explanation of the significance of such ratings may be obtained only from such rating agencies. There is no assurance that such ratings will continue for any period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgment of such rating agencies, circumstances so warrant. Any revision or withdrawal of the ratings assigned to the Bonds could affect the market price of the Bonds.

## UNDERWRITING

The Bonds are being purchased, subject to certain conditions, by Barclays Capital Inc. (the "Underwriter"). The Bond Purchase Agreement for the Bonds provides for the Underwriter, subject to certain conditions precedent, to purchase all of the Series 2014A Bonds at a discount of $176,545.17 from the original public offering prices set forth on the inside cover of this Official Statement and to purchase all of the Series 2014B Bonds at a discount of $20,835.20 from the original public offering prices set forth on the inside cover of this Official Statement.

## CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Miller, Canfield, Paddock and Stone, P.L.C., Detroit, Michigan, Bond Counsel. The forms of opinions of Bond Counsel with respect to the Series 2014A Bond and the Series 2014B Bonds are attached as Appendix C. Certain matters will be passed on for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York.

## ONGOING DISCLOSURE

On or before the date of delivery of the Bonds, the Issuer will execute and deliver for the benefit of the holders and beneficial owners of the Bonds, a Disclosure Undertaking pursuant to the requirements of Rule 15c2-12 (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, in substantially the form set forth in Appendix D. Except as may be otherwise required by applicable federal securities law, the Issuer is not obligated to provide any additional disclosure beyond that specified in Appendix D. Neither the Underwriter nor the Trustee shall have any responsibilities with respect to the Disclosure Undertaking.

In the past five years the Issuer has not failed to comply, in all material respects, with any previous disclosure undertaking entered into by the Issuer pursuant to the Rule.

## INDEPENDENT ACCOUNTANTS

The financial statements of the University as of and for the years ended June 30, 2013 and 2012 included in Appendix A to this Official Statement have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix A.

## MISCELLANEOUS

During the initial offering period for the Bonds, copies of the Trust Agreement are available for inspection at the Office of the Treasurer, 3003 South State Street, 10090 Wolverine Tower, Ann Arbor, Michigan 48109-1283.

The execution and delivery of this Official Statement has been duly authorized by the Issuer.

**REGENTS OF THE UNIVERSITY OF MICHIGAN**

By: /s/ Timothy P. Slottow
Executive Vice President and Chief Financial Officer

# APPENDIX A

# AUDITED FINANCIAL STATEMENTS OF THE UNIVERSITY

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# THE UNIVERSITY OF MICHIGAN

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEARS ENDED JUNE 30, 2013 and 2012
## with
## INDEPENDENT AUDITOR'S REPORT

THE UNIVERSITY OF MICHIGAN

June 30, 2013 and 2012

Page(s)

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## Independent Auditor's Report

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, 2013 and 2012 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 cash flows.

<u>Management's Responsibility for the Financial Statements</u>

Management is responsible for the preparation and fair presentation of these 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.

<u>Auditor's Responsibility</u>

Our responsibility is to express an opinion on these 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.



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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, 2013 and 2012, and the 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 3 through 27 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

September 18, 2013

**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, 2013 and 2012 and its activities for the three fiscal years ended June 30, 2013. 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 approximately 61,000 students and 7,500 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 approximately 44,000 permanent employees and 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 $16.4 billion and liabilities of $4.9 billion at June 30, 2013, compared to assets of $15.7 billion and liabilities of $4.9 billion at June 30, 2012. Net position, which represents the residual interest in the University's assets after liabilities are deducted, totaled $11.5 billion at June 30, 2013 as compared to $10.8 billion at June 30, 2012. Changes in net position represent the University's results of operations and are summarized for the years ended June 30, 2013 and 2012 as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in millions) | |
| Operating revenues and educational appropriations | $ 5,676.4 | $ 5,391.5 |
| Private gifts for operating activities | 168.6 | 131.6 |
| Operating and net interest expenses | (6,162.1) | (5,878.9) |
| | (317.1) | (355.8) |
| Net investment income | 847.3 | 68.7 |
| Endowment and capital gifts/grants and other | 199.7 | 116.0 |
| Increase (decrease) in net position | $ 729.9 | $ (171.1) |

Net position increased $730 million in fiscal 2013 after a decrease of $171 million in fiscal 2012 primarily due to volatility in net investment income which totaled $847 million and $69 million in 2013 and 2012, respectively.

In 2013, operating revenues and educational appropriations increased 5.3 percent, or $285 million, while total operating and net interest expenses increased 4.8 percent, or $283 million. Gifts for operating activities, endowment and capital increased significantly in 2013 as the silent phase of the University's next major fundraising campaign is underway.

The results of operations reflect the University's focus on maintaining its national standards academically, in research and in health care in a competitive recruitment environment for faculty and health care professionals. 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 provide for a stable and predictable level of spending distributions from the endowment. Endowment spending rate distributions totaled $276 million and $270 million in 2013 and 2012, 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, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in millions) | |
| Current assets | $ 2,155 | $ 2,107 |
| Noncurrent assets: | | |
| Endowment, life income and other investments | 8,674 | 7,949 |
| Capital assets, net | 5,369 | 5,338 |
| Other | 237 | 263 |
| Total assets | 16,435 | 15,657 |
| Current liabilities | 1,399 | 1,588 |
| Noncurrent liabilities | 3,553 | 3,316 |
| Total liabilities | 4,952 | 4,904 |
| Net position | $ 11,483 | $ 10,753 |

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, 2013 and 2012, 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 $2.1 billion at June 30, 2013 and 2012, respectively. Cash, cash equivalents and investments for operating activities totaled $934 million at June 30, 2013, 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 $1.4 billion and $1.6 billion at June 30, 2013 and 2012, respectively.

## Endowment, Life Income and Other Investments

The composition of the University's endowment, life income and other investments at June 30, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in millions) | |
| Endowment investments | $ 8,382 | $ 7,691 |
| Life income investments | 111 | 101 |
| Noncurrent portion of insurance and benefits obligations investments | 181 | 157 |
| | $ 8,674 | $ 7,949 |

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 7,800 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 University units that benefit from the endowment fund. Commencing with the quarter ending September 30, 2010, the annual distribution rate began to be reduced from 5 percent of the one-quarter lagged seven year moving average fair value of University Endowment Fund shares to 4.5 percent. This change is one element of an ongoing financial management strategy that has allowed the University to effectively weather the recent recession while avoiding drastic measures taken by many of our peer institutions, such as faculty hiring freezes, furloughs, program cuts or halting construction. To avoid negative impacts of this change on near-term budgets, endowment distributions are being managed toward the new rate by keeping quarter to quarter distributions per share unchanged and gradually moving toward the 4.5 percent rate when increases in share value would otherwise result in higher per share distributions. The length of the implementation period will depend on the actual investment returns and resulting changes in share values experienced during the implementation period.

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. Any 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 $276 million, $270 million and $266 million and withdrawals from funds functioning as endowment totaled $24 million, $39 million and $44 million in 2013, 2012 and 2011, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 4.8 percent, 5.2 percent and 5.4 percent of the current year average fair value of the University Endowment Fund for 2013, 2012 and 2011, 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, along with balanced investment in new construction.

Capital asset additions totaled $519 million in 2013, as compared to $591 million in 2012. 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 $463 million, as well as debt proceeds of $56 million. Construction in progress, which totaled $328 million at June 30, 2013 and $227 million at June 30, 2012, includes important projects for student residential life, research, instruction, patient care and athletics.

At June 30, 2013, renovations of East Quadrangle, the Lawyers Club building and the John P. Cook building continue. The infrastructure of these student residences is being thoroughly upgraded, including wireless high-speed network access, accessibility improvements, renovated bath facilities and new plumbing, heating, cooling, ventilation, fire detection and suppression systems. In addition, energy conservation measures are being implemented to improve the energy performance of the overall buildings.

Renovation of East Quadrangle, which was originally constructed in 1940, is part of the University's residential life initiatives and follows the extensive renovations to Alice Lloyd, Mosher Jordan, Stockwell and Couzens residence halls in previous years. This project includes improved dining and Residential College facilities as well as new spaces for living-learning initiatives, student interaction and community. The Lawyers Club and John P. Cook buildings comprise the student-housing portion of the Law Quadrangle and were opened in 1924 and 1931, respectively. One of the largest gifts ever made to the Law School is helping to revitalize these student living spaces and create a sense of community, while preserving the historic collegiate gothic exteriors. In honor of the gift, the north wing of the Lawyers Club will be called the Charles T. Munger Residences. These projects are expected to be completed in August 2013.

Expansion of the George Granger Brown Memorial Laboratories building, which houses the Department of Mechanical Engineering, is also in process at June 30, 2013. Originally constructed in 1958, this building will be expanded by 62,500 gross square feet to add research laboratories and offices for faculty and graduate students to support emerging research endeavors. Designed to support interdisciplinary collaboration within the University and with other academic institutions and industry, the expansion also provides spaces to enhance the ability to realize ultra-high-resolution measurements at molecular and atomic scales to enable researchers to study the forces at work at the smallest scales and advance nanotechnologies in energy, manufacturing, healthcare and biotechnology. This project is expected to be completed in Summer 2014.

Projects completed in 2013 include renovation and expansion of the Michigan Memorial Phoenix Laboratory and Crisler Arena. The renovation and expansion of Michigan Memorial Phoenix Laboratory created state-of-the-art research laboratory space to support the Michigan Memorial Phoenix Energy Institute's energy-related research. This project included transformation of approximately 10,000 gross square feet into advanced laboratories for energy research, replacement of the facility's existing electrical substation and the addition of 10,000 gross square feet of new space for research, collaboration and interaction and administrative offices for the Institute. This facility will serve as a fulcrum for energy-related activities at the University, providing outstanding facilities for energy research and inter-disciplinary cooperation.

The renovation of Crisler Arena, which was originally built in 1967, included core infrastructure improvements, replacement of spectator seating to accommodate accessible seats, improved circulation and egress, increased number of restrooms and concession areas and the addition of other fan amenities. The expansion of this facility, now known as the Crisler Center, added approximately 63,000 gross square feet for new spectator entrances, retail spaces, ticketing areas, indoor and outdoor meeting and entertainment spaces as well as a private club area, media center and production studio. The expansion incorporated many environmentally responsible features, such as a high performance building envelope, natural lighting and low emitting carpet and paint products, and received a Leadership in Energy and Environmental Design (LEED) gold certification.

**Management's Discussion and Analysis (Unaudited)--Continued**

The University takes its financial stewardship responsibility seriously 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 2013, Moody's Investors Service, Inc. ("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 Ratings Services ("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 two other public universities have received the highest credit ratings from both Moody's and Standard & Poor's.

Long-term debt activity for the year ended June 30, 2013, and the type of revenue it is supported by, is summarized as follows:

| | Beginning Balance | Additions (in millions) | Reductions | Ending Balance |
|---|---|---|---|---|
| Commercial Paper: | | | | |
| General revenues | $ 63 | $ 88 | $ 96 | $ 55 |
| Bonds and Notes: | | | | |
| General revenues | 1,421 | 412 | 81 | 1,752 |
| Hospital revenues | 280 | | 280 | - |
| Faculty Group Practice revenues | 60 | | 60 | - |
| Student residences revenues | 2 | | 2 | - |
| | $ 1,826 | $ 500 | $ 519 | $ 1,807 |

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. At June 30, 2013 and 2012, commercial paper totaled $55 million and $63 million, respectively.

During 2013, consistent with capital and debt financing plans, the University issued $355 million of variable rate tax-exempt general revenue bonds, and $54 million of fixed rate tax-exempt general revenue bonds, with a net original issue premium of $3 million. Bond proceeds, which totaled $412 million, were utilized to refund $266 million of Hospital Revenue Bonds and $57 million of Medical Service Plan Revenue Bonds, convert $23 million of commercial paper to long-term debt, and provide $66 million for capital projects and debt issuance costs.

**Management's Discussion and Analysis (Unaudited)--Continued**

The University maintains a combination of fixed and variable rate debt, which totaled $1.8 billion at June 30, 2013 and 2012. The composition of the University's debt at June 30, 2013 and 2012 is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| | (in millions) | |
| Variable rate: | | |
| Commercial paper | $ 55 | $ 63 |
| Bonds | 864 | 854 |
| Fixed rate bonds | 888 | 909 |
| | $ 1,807 | $ 1,826 |

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 bonds will be remarketed within a reasonable amount of time. The University's strong credit rating facilitates the remarketing of its debt. 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 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 2.2 percent in 2013 and 2.3 percent in 2012, including the amortization of bond premiums and discounts and federal subsidies for interest on taxable Build America Bonds. Interest expense net of federal subsidies received for interest on taxable Build America Bonds and interest capitalized during construction totaled $41 million in 2013 and $37 million in 2012, while capitalized interest on debt financed construction in progress totaled $2 million and $6 million in 2013 and 2012, respectively.

## Obligations for Postemployment Benefits

In accordance with the provisions of 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 $1.70 billion and $1.67 billion at June 30, 2013 and 2012, 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 $290 million and $263 million at June 30, 2013 and 2012, respectively.

By implementing a series of health benefit initiatives over the past eight years, the University has favorably impacted its actuarial accrued liability for postemployment benefits by approximately $486 million as of June 30, 2013. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and 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, 2013, the recorded liability for net postemployment benefits obligations totaled $1.70 billion and the actuarial accrued liability totaled $1.34 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, 2013 and 2012 is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| | (in millions) | |
| Net investment in capital assets | $ 3,637 | $ 3,598 |
| Restricted: | | |
| Nonexpendable: | | |
| Permanent endowment corpus | 1,432 | 1,346 |
| Expendable: | | |
| Net appreciation of permanent endowments | 1,339 | 1,193 |
| Funds functioning as endowment | 1,748 | 1,597 |
| Restricted for operations and other | 602 | 493 |
| Unrestricted | 2,725 | 2,526 |
| | $ 11,483 | $ 10,753 |

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 $39 million increase 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 $86 million increase primarily represents new gifts. Restricted expendable net position is subject to externally imposed stipulations governing their use. This category of net position 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 $3.7 billion at June 30, 2013, as compared to $3.3 billion at June 30, 2012.

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 and research programs and initiatives, as well as capital projects. Unrestricted net position at June 30, 2013 and 2012 totaled $2.7 billion and $2.5 billion, respectively. At June 30, 2013, unrestricted net position included funds functioning as endowment of $3.7 billion offset by unfunded obligations for postemployment benefits of $1.7 billion. At June 30, 2012, unrestricted net position included funds functioning as endowment of $3.5 billion offset by unfunded obligations for postemployment benefits of $1.7 billion. Unrestricted net position also included other net resources of $700 million at June 30, 2013 and 2012.

### Statement of Revenues, Expenses and Changes in Net Position

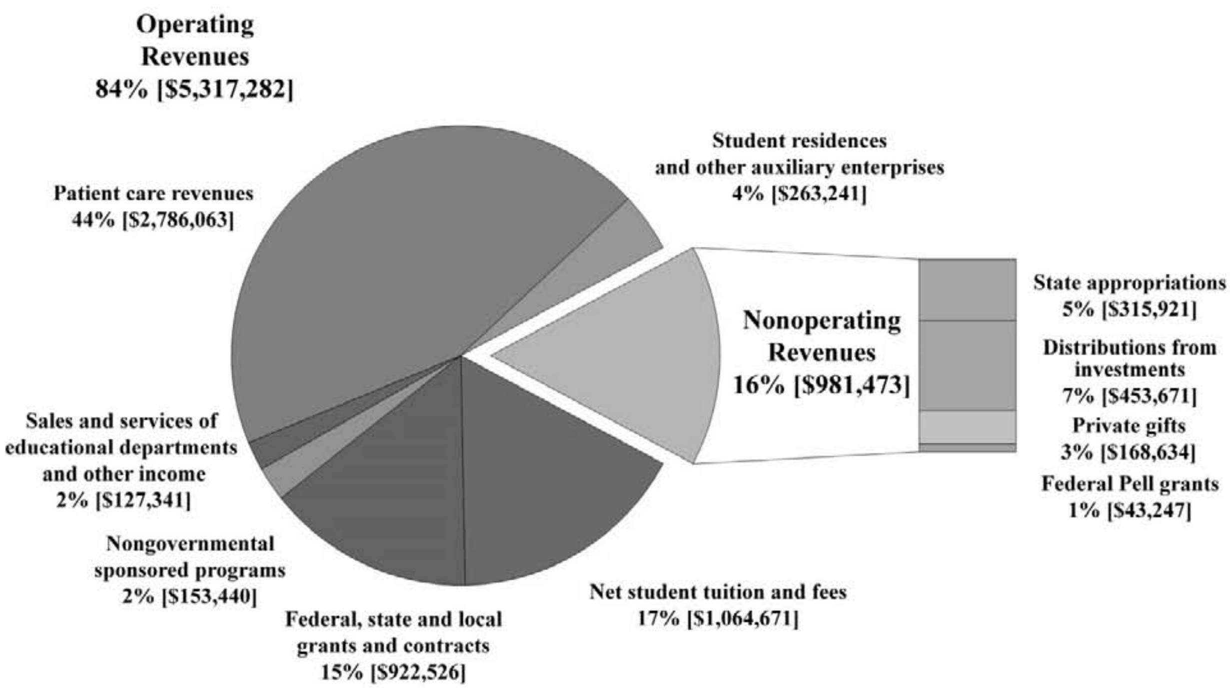
The statement of revenues, expenses and changes in net position presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A comparison of the University's revenues, expenses and changes in net position for the three years ended June 30, 2013 is summarized as follows:

| | 2013 | 2012 (in millions) | 2011 |
|---|---|---|---|
| Operating revenues: | | | |
| Student tuition and fees, net of scholarship allowances | $ 1,064.7 | $ 998.4 | $ 915.7 |
| Sponsored programs | 1,076.0 | 1,045.8 | 1,072.9 |
| Patient care revenues, net | 2,786.1 | 2,601.8 | 2,411.1 |
| Other | 390.5 | 392.6 | 378.1 |
| | 5,317.3 | 5,038.6 | 4,777.8 |
| Operating expenses | 6,121.0 | 5,842.1 | 5,437.8 |
| Operating loss | (803.7) | (803.5) | (660.0) |
| Nonoperating and other revenues (expenses): | | | |
| State educational appropriations | 315.9 | 307.6 | 361.9 |
| Federal Pell grants | 43.2 | 45.3 | 46.7 |
| Private gifts for operating activities | 168.6 | 131.6 | 127.8 |
| Net investment income | 847.3 | 68.7 | 1,633.0 |
| Interest expense, net | (49.3) | (45.1) | (33.1) |
| Federal subsidies for interest on Build America Bonds | 8.2 | 8.3 | 7.1 |
| State capital appropriations | | 0.1 | 0.8 |
| Endowment and capital gifts and grants | 212.1 | 107.6 | 82.3 |
| Other | (12.4) | 8.3 | (5.2) |
| Nonoperating and other revenues, net | 1,533.6 | 632.4 | 2,221.3 |
| Increase (decrease) in net position | 729.9 | (171.1) | 1,561.3 |
| Net position, beginning of year | 10,753.2 | 10,924.3 | 9,363.0 |
| Net position, end of year | $ 11,483.1 | $ 10,753.2 | $ 10,924.3 |

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.

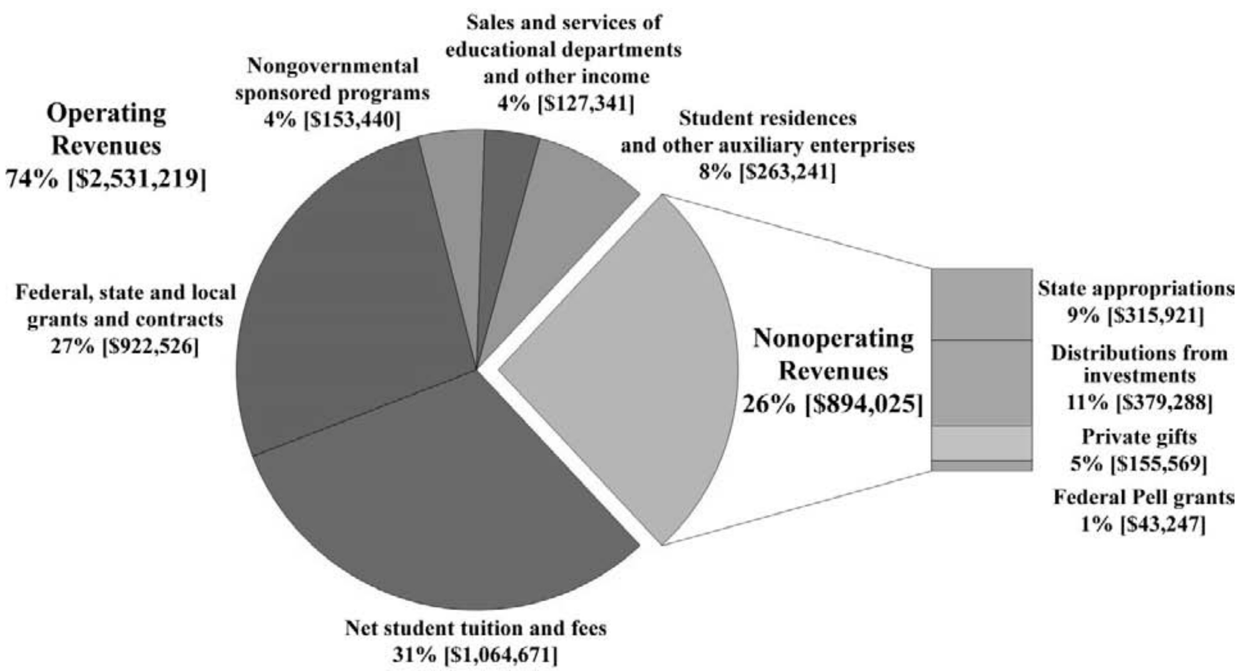
The following is a graphic illustration of revenues by source, both operating and nonoperating, which are used to fund the University's operating activities for the year ended June 30, 2013 (amounts are presented in thousands of dollars). Significant recurring sources of the University's revenues are considered nonoperating, as defined by GASB, such as state appropriations, distributions from investments, private gifts and federal Pell grants.

**Fiscal Year 2013 Revenues for Operating Activities**



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, 2013 (amounts are presented in thousands of dollars).

**Fiscal Year 2013 Revenues for Operating Activities**
**Excluding Revenues from the Health System and Other Clinical Activities**




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 6 percent, or $75 million, to $1.38 billion in 2013, as compared to 2 percent, or $28 million, to $1.31 billion in 2012.

The University has been able to avoid the severe cuts and double digit tuition increases experienced elsewhere in the country because of 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 academic initiatives to maintain academic excellence and help students keep pace with the ever evolving needs of society.

In 2013, the University's state educational appropriations increased by 3 percent, or $8 million, to $316 million. This follows a year when the University received the largest cut in state appropriations in its history, a 15 percent, or $54 million reduction in 2012.

For the three years ended June 30, 2013, net student tuition and fees revenue consisted of the following components:

| | **2013** | **2012** (in millions) | **2011** |
|---|---|---|---|
| Student tuition and fees | $ 1,349.1 | $ 1,269.7 | $ 1,177.9 |
| Scholarship allowances | (284.4) | (271.3) | (262.2) |
| | $ 1,064.7 | $ 998.4 | $ 915.7 |

In 2013, net student tuition and fees revenue increased 7 percent, or $66 million, to $1.06 billion, which reflects a 6 percent, or $79 million, increase in gross tuition and fee revenues offset by a 5 percent, or $13 million increase in scholarship allowances. Tuition rate increases in 2013 were 2.8 percent for resident undergraduate students, 3.5 percent for nonresident undergraduate students and 3.0 percent for most graduate students on the Ann Arbor campus, with a 3.7 percent tuition rate increase for most undergraduate and graduate students on the Dearborn campus and 3.6 percent and 2.8 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.

In 2012, net student tuition and fees revenue increased 9 percent, or $83 million, to $998 million, which reflects an 8 percent, or $92 million, increase in gross tuition and fee revenues offset by a 3 percent, or $9 million increase in scholarship allowances. Tuition rate increases in 2012 were 6.7 percent for resident undergraduate students, 4.9 percent for nonresident undergraduate students and 4.9 percent for most graduate students on the Ann Arbor campus, with a 6.9 percent tuition rate increase for undergraduate and graduate students on the Dearborn campus and 6.8 percent and 4.9 percent tuition rate increases for Flint campus undergraduate and graduate students, respectively. The University also experienced moderate growth in the number of students, particularly nonresident students.

The University's tuition 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 becoming increasingly essential to the University's academic distinction. Private gifts for other than capital and permanent endowment purposes totaled $169 million in 2013, as compared to $132 million in 2012 and $128 million in 2011.

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 3 percent, or $30 million, to $1.1 billion in 2013, which is consistent with the national trend of stabilized federal research funding, supplemented by increased revenue from industry sponsored activities. Revenues for sponsored programs decreased 3 percent, or $27 million, to $1.0 billion in 2012, primarily due to the spend down of federal stimulus awards from the American Recovery and Reinvestment Act of 2009.

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 7 percent, or $184 million, to $2.8 billion in 2013, as compared to an increase of 8 percent, or $191 million, to $2.6 billion in 2012. The increased revenues for both years primarily resulted from a growth in outpatient and inpatient volume, as well as increased reimbursement rates from third party payers.

Net investment income totaled $847 million in 2013, compared to $69 million in 2012 and $1.6 billion in 2011. In a reversal from 2012, when fixed income gained strongly and equity oriented investments fell, developed markets equities, absolute return strategies, and private equity investments realized double digit positive returns in 2013 while fixed income experienced small losses. In 2011, most asset classes experienced double digit positive returns as financial markets rebounded from the significant losses experienced in 2009.

The University's endowment investment policies are designed to maximize long-term total return, while its income distribution policy is designed to preserve the value of the endowment and generate a predictable stream of spendable income.

**Management's Discussion and Analysis (Unaudited)--Continued**

Endowment and capital gifts and grants totaled $212 million in 2013 as compared to $108 million and $82 million in 2012 and 2011, respectively, with the significant increase in 2013 due primarily to capital gifts. Private gifts for permanent endowment purposes totaled $78 million in 2013, as compared to $56 million in 2012 and $57 million in 2011. Capital gifts and grants totaled $134 million in 2013, as compared to $52 million in 2012 and $25 million in 2011. 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, 2013 is as follows (amounts in millions):

| | **2013** | | **2012** | | **2011** | |
|---|---|---|---|---|---|---|
| Operating: | | | | | | |
| Compensation and benefits | $ 3,965.0 | 64% | $ 3,804.3 | 65% | $ 3,633.8 | 66% |
| Supplies and services | 1,555.8 | 25 | 1,473.7 | 25 | 1,299.6 | 24 |
| Depreciation | 476.9 | 8 | 443.1 | 7 | 390.1 | 7 |
| Scholarships and fellowships | 123.3 | 2 | 121.0 | 2 | 114.3 | 2 |
| | 6,121.0 | 99 | 5,842.1 | 99 | 5,437.8 | 99 |
| Nonoperating: | | | | | | |
| Interest, net | 41.1 | 1 | 36.8 | 1 | 26.0 | 1 |
| | $ 6,162.1 | 100% | $ 5,878.9 | 100% | $ 5,463.8 | 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 $161 million, to $4.0 billion in 2013, as compared to a 5 percent, or $171 million, increase to $3.8 billion in 2012. Of the 2013 increase, compensation increased 4 percent, to $3.1 billion, and employee benefits increased 4 percent, to $901 million. For 2012, compensation increased 6 percent, to $2.9 billion, and employee benefits increased 2 percent, to $870 million. During 2013 and 2012, nursing and other health professionals were added to support higher patient volume levels associated with the new facility for C.S. Mott Children's Hospital and Von Voigtlander Women's Hospital, which opened in fiscal 2012.

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 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 an on-staff pharmacist, monitors the safety and effectiveness of covered medications as well as optimizes appropriate prescribing, dispensing and cost effective use of prescription drugs. The University also actively promotes and manages generic drug utilization and has achieved an 84 percent generic dispensing rate in 2013, as compared to 82 percent in 2012 and 76 percent in 2011.

In addition, the University utilizes its nationally recognized health policy experts to guide future health plan strategies. After careful review, a series of changes are being implemented to help the University maintain competitive active and retiree benefits while helping control the growth in costs.

During 2013, the University began to implement changes to eligibility requirements for retiree health benefits and the related amount of the University’s contributions. These changes are based on the work of a committee on retiree health benefits that was formed to propose a means to maintain competitive retiree health benefits while helping address the acceleration of health benefits costs for current and future retirees and their dependents. To assist current employees with the transition, these changes, which were originally announced in 2011, are being phased in gradually over the eight-year period January 1, 2013 through January 1, 2021.

Commencing January 1, 2013, 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 for retirement total 76 in 2013 and will gradually be increased to 80 by 2021. During this time period, the University’s contributions towards health care benefits for employees who retire in each of these years will gradually be reduced. Employees who retire after December 31, 2020 will need a minimum of twenty years of service to receive the maximum retiree health benefit contribution. Specifically, the University’s contributions towards health care benefits will decrease from 87.5 percent for the retiree and 65 percent for any dependents for those employees who retire in 2013 to a maximum of 80 percent for the retiree and 50 percent for any dependents for those employees who retire in 2021. For new hires, the maximum University contribution upon retirement with twenty or more years of service 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.

During 2012, the University substantially completed a multi-year phase in of a new health benefits cost sharing program. Once fully implemented in July 2014, the University's overall contribution toward the health care of employees, retirees and dependents is expected to be 70 percent of the total cost of premiums, co-pays and deductibles. Down from an 80 percent overall contribution in 2009, the new target is more in line with average contributions of peer universities and health systems. In addition, the University's health premium contribution for part-time employees working between 20 and 31 hours per week was reduced from 100 percent to 80 percent of the contribution made for full-time staff in the lowest salary band. Once fully implemented, these changes are expected to reduce the University's annual cash outlay for health care expenses by approximately $31 million.

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, reducing health risks in our population, and containing health related costs through prevention, early intervention. Over the past four years, more than 33,000 of the University's employees participated in a health risk assessment, allowing them to learn more about their health risks and take action to improve them through follow-up programs and services. In 2013 alone, 56 percent of employees completed a health risk assessment and more than 80 percent of participating employees also completed at least one qualifying health and wellness program. MHealthy has also begun to provide special targeted health improvement programs to high-risk job families. A three-year evaluation of the program's impact was completed in 2012 by faculty researchers from the Michigan Institute for Clinical and Health Research and the University's Health Management Research Center. Faculty and staff who participated all three years showed statistically significant improvement in their risk levels, with the number of high risk individuals decreasing and the number of low risk individuals increasing.

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 6 percent, or $82 million, to $1.6 billion in 2013, as compared to an increase of 13 percent, or $174 million, to $1.5 billion in 2012. These increases were primarily due to growth in patient care related expenses as well as activation costs associated with significant capital projects. During 2012, a new facility for the C.S. Mott Children's and Von Voigtlander Women's Hospitals was placed in service and the University implemented several significant information technology systems, including the first phase of an electronic medical record and patient billing system and a new donor and alumni relationship system. In addition, the University experienced increased self insurance costs in 2012 due to higher incurred losses in medical professional liability and workers compensation.

Depreciation expense increased 8 percent, or $34 million, to $477 million in 2013, as compared to a 14 percent, or $53 million, increase to $443 million in 2012. 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 2013 include the renovation and expansion of Crisler Arena and the Michigan Memorial Phoenix Laboratory. During 2012, capital assets placed in service included a new facility for C.S. Mott Children's and Von Voigtlander Women's Hospitals, renovation of Alice Lloyd Hall, and the new William Davidson Player Development Center. In addition, the remaining net book value of certain capital assets of the legacy children and women's hospitals that were deemed to have no future utility were written off in 2012 based on current renovation plans for that facility.

Net interest expense increased $4 million in 2013 to $41 million, from $37 million in 2012 and $26 million in 2011. The significant increase in 2012 primarily resulted from a decrease in the amount of capitalized interest on debt financed construction due to decreased construction in process.

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, 2013 is as follows (amounts in millions):

| | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| Operating: | | | | | | |
| Instruction | $ 924.5 | 15% | $ 892.5 | 15% | $ 853.1 | 16% |
| Research | 750.2 | 12 | 718.8 | 12 | 733.5 | 13 |
| Public service | 148.9 | 2 | 129.6 | 2 | 131.5 | 2 |
| Institutional and academic support | 530.8 | 9 | 504.5 | 9 | 486.3 | 9 |
| Auxiliary enterprises: | | | | | | |
| Patient care | 2,752.5 | 44 | 2,532.4 | 43 | 2,285.2 | 42 |
| Other | 157.6 | 3 | 215.6 | 4 | 168.5 | 3 |
| Operations and maintenance of plant | 256.3 | 4 | 284.6 | 5 | 275.3 | 5 |
| Depreciation | 476.9 | 8 | 443.1 | 7 | 390.1 | 7 |
| Scholarships and fellowships | 123.3 | 2 | 121.0 | 2 | 114.3 | 2 |
| | 6,121.0 | 99 | 5,842.1 | 99 | 5,437.8 | 99 |
| Nonoperating: | | | | | | |
| Interest, net | 41.1 | 1 | 36.8 | 1 | 26.0 | 1 |
| | $ 6,162.1 | 100% | $ 5,878.9 | 100% | $ 5,463.8 | 100% |

Instruction expenses increased 4 percent, or $32 million in 2013, and 5 percent, or $39 million in 2012. This increase is consistent with the modest level of growth in the related revenue sources offset by cost containment efforts.

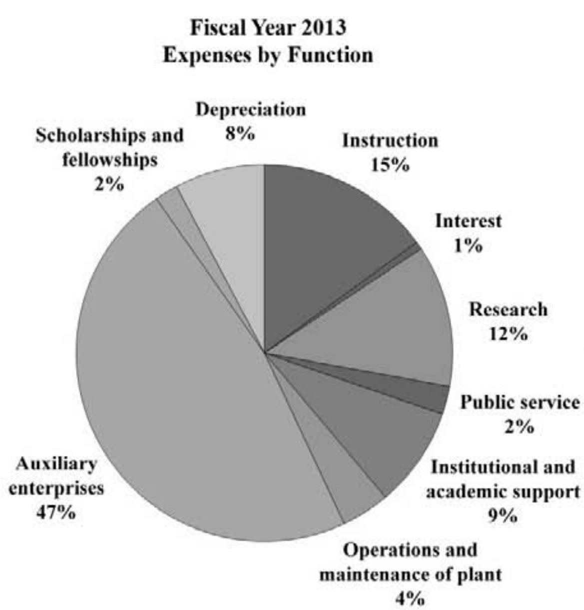
To measure its total volume of research expenditures, the University considers research expenses, included in the above table, as well as research related facilities and administrative expenses, research initiative and start-up expenses and research equipment purchases. These amounts aggregated $1.33 billion in 2013, as compared to $1.27 billion in 2012 and $1.24 billion in 2011. This represents an increase of 7 percent, or $92 million, from 2011 to 2013.

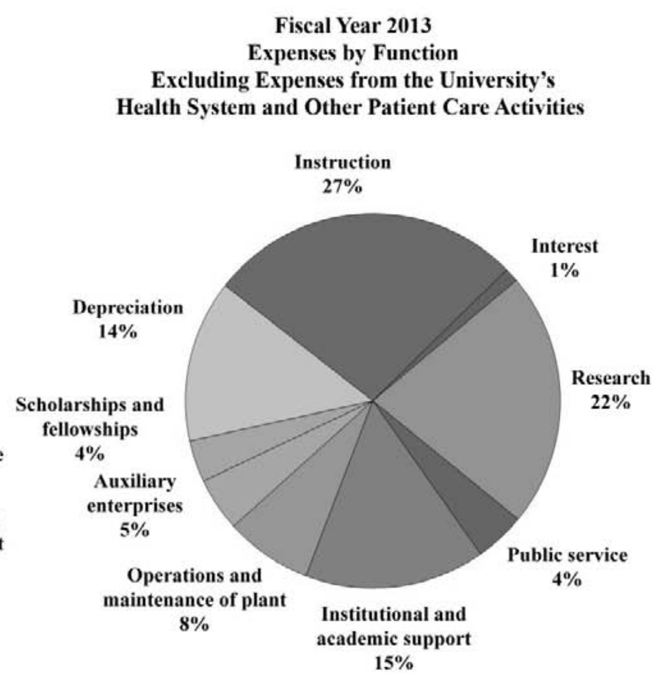
Patient care expenses increased 9 percent, or $221 million, in 2013 and 11 percent, or $247 million, in 2012. These increases are the result of increased patient activity from the opening of the new children and women's hospital facility, including costs of staffing, medical supplies and pharmaceuticals.

Total scholarships and fellowships provided to students aggregated $426 million in 2013, as compared to $411 million in 2012 and $395 million in 2011, an increase of 8 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 expense. Scholarships and fellowships for the three years ended June 30, 2013 are summarized as follows:

| | 2013 | 2012 (in millions) | 2011 |
|---|---|---|---|
| Paid directly to students | $ 123.3 | $ 121.0 | $ 114.3 |
| Applied to tuition and fees | 284.4 | 271.3 | 262.2 |
| Applied to University Housing | 18.0 | 19.0 | 18.2 |
| | $ 425.7 | $ 411.3 | $ 394.7 |

The following graphic illustrations present total expenses by function, with and without 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, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in millions) | |
| Cash received from operations | $ 5,270.9 | $ 5,011.9 |
| Cash expended for operations | (5,575.2) | (5,332.5) |
| Net cash used in operating activities | (304.3) | (320.6) |
| Net cash provided by investing activities | 64.0 | 141.3 |
| Net cash used in capital and related financing activities | (463.3) | (436.2) |
| Net cash provided by noncapital financing activities | 566.2 | 537.7 |
| Net decrease in cash and cash equivalents | (137.4) | (77.8) |
| Cash and cash equivalents, beginning of year | 238.7 | 316.5 |
| Cash and cash equivalents, end of year | $ 101.3 | $ 238.7 |

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 a high degree of 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 relationship 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 2014 anticipates a 2.2 percent increase in state educational appropriations and achieves the lowest tuition rate increase for Ann Arbor campus resident undergraduates since 1985 of 1.1 percent and the largest ever increase in financial aid, which includes a 13.7 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition rates will increase 3.2 percent, while most graduate and professional rates will increase 1.8 percent. Resident undergraduate tuition rates on the Dearborn and Flint campuses will increase 3.5 percent.

While tuition and state appropriations fund a large percentage of University costs, private support is becoming increasingly essential to the University's academic distinction. In November 2013, the University will kick off the most ambitious fundraising campaign in its history.

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, clinical and research activities. Authorized costs to complete construction and other projects totaled $1.17 billion at June 30, 2013. Funding for these projects is anticipated to include $1.13 billion from gifts, grants and net position designated for capital purposes as well as future borrowings and $42 million from the utilization of unexpended debt proceeds.

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 influence benefits planning. Since the Affordable Care Act was signed into law in March 2010, and affirmed by the Supreme Court, new regulatory requirements will affect health plans, providers and employers alike. The implementation of the changes has begun and will span several years into the future, with most changes taking place by 2015. University experts are diligently reviewing and assessing the short and long-term impacts on our health plans and our health system 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 condition will remain strong.

THE UNIVERSITY OF MICHIGAN

## Consolidated Statement of Net Position

| | June 30, 2013 | June 30, 2012 |
|---|---|---|
| | (in thousands) | |
| **Assets** | | |
| Current Assets: | | |
| Cash and cash equivalents | **$ 101,327** | $ 238,690 |
| Investments for operating activities | **832,280** | 737,384 |
| Investments for capital activities | **357,495** | 388,637 |
| Investments for student loan activities | **60,732** | 55,706 |
| Accounts receivable, net | **574,810** | 494,787 |
| Current portion of notes and pledges receivable, net | **118,648** | 59,553 |
| Current portion of prepaid expenses and other assets | **66,907** | 78,254 |
| Cash collateral held by agent | **43,000** | 54,300 |
| Total Current Assets | **2,155,199** | 2,107,311 |
| Noncurrent Assets: | | |
| Endowment, life income and other investments | **8,674,180** | 7,948,955 |
| Notes and pledges receivable, net | **206,982** | 196,692 |
| Prepaid expenses and other assets | **29,455** | 66,718 |
| Capital assets, net | **5,369,400** | 5,337,664 |
| Total Noncurrent Assets | **14,280,017** | 13,550,029 |
| **Total Assets** | **$ 16,435,216** | $ 15,657,340 |
| **Liabilities and Net Position** | | |
| Current Liabilities: | | |
| Accounts payable | **$ 219,581** | $ 195,055 |
| Accrued compensation and other | **354,745** | 350,508 |
| Unearned revenue | **214,381** | 200,966 |
| Current portion of insurance and benefits reserves | **86,173** | 84,155 |
| Current portion of obligations for postemployment benefits | **61,258** | 56,131 |
| Commercial paper and current portion of bonds payable | **117,907** | 135,193 |
| Long-term bonds payable subject to remarketing, net | **267,060** | 482,202 |
| Collateral held for securities lending | **43,000** | 54,300 |
| Deposits of affiliates and others | **35,283** | 29,988 |
| Total Current Liabilities | **1,399,388** | 1,588,498 |
| Noncurrent Liabilities: | | |
| Accrued compensation | **64,944** | 68,498 |
| Insurance and benefits reserves | **109,415** | 102,821 |
| Obligations for postemployment benefits | **1,636,833** | 1,615,433 |
| Obligations under life income agreements | **46,849** | 44,056 |
| Government loan advances | **91,418** | 91,211 |
| Bonds payable | **1,421,935** | 1,208,869 |
| Deposits of affiliates and other | **181,305** | 184,757 |
| Total Noncurrent Liabilities | **3,552,699** | 3,315,645 |
| Total Liabilities | **4,952,087** | 4,904,143 |
| Net Position: | | |
| Net investment in capital assets | **3,637,027** | 3,597,540 |
| Restricted: | | |
| Nonexpendable | **1,432,191** | 1,345,859 |
| Expendable | **3,689,208** | 3,283,639 |
| Unrestricted | **2,724,703** | 2,526,159 |
| Total Net Position | **11,483,129** | 10,753,197 |
| **Total Liabilities and Net Position** | **$ 16,435,216** | $ 15,657,340 |

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

THE UNIVERSITY OF MICHIGAN

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

| | Year Ended June 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Operating Revenues** | | |
| Student tuition and fees | **$ 1,349,057** | $ 1,269,703 |
| Less scholarship allowances | **284,386** | 271,276 |
| Net student tuition and fees | **1,064,671** | 998,427 |
| Federal grants and contracts | **914,012** | 901,764 |
| State and local grants and contracts | **8,514** | 4,154 |
| Nongovernmental sponsored programs | **153,440** | 139,840 |
| Sales and services of educational departments | **124,533** | 127,473 |
| Auxiliary enterprises: | | |
| Patient care revenues (net of provision for bad debts of $114,025 in 2013 and $105,618 in 2012) | **2,786,063** | 2,601,803 |
| Student residence fees (net of scholarship allowances of $18,008 in 2013 and $19,201 in 2012) | **89,035** | 94,134 |
| Other revenues | **174,206** | 168,204 |
| Student loan interest income and fees | **2,808** | 2,772 |
| **Total Operating Revenues** | **5,317,282** | 5,038,571 |
| **Operating Expenses** | | |
| Compensation and benefits | **3,965,030** | 3,804,225 |
| Supplies and services | **1,555,800** | 1,473,665 |
| Depreciation | **476,898** | 443,132 |
| Scholarships and fellowships | **123,287** | 121,040 |
| **Total Operating Expenses** | **6,121,015** | 5,842,062 |
| Operating loss | **(803,733)** | (803,491) |
| **Nonoperating Revenues (Expenses)** | | |
| State educational appropriations | **315,921** | 307,582 |
| Federal Pell grants | **43,247** | 45,288 |
| Private gifts for other than capital and endowment purposes | **168,634** | 131,602 |
| Net investment income | **847,273** | 68,650 |
| Interest expense, net | **(49,342)** | (45,096) |
| Federal subsidies for interest on Build America Bonds | **8,251** | 8,258 |
| **Total Nonoperating Revenues, Net** | **1,333,984** | 516,284 |
| Income (loss) before other revenues (expenses) | **530,251** | (287,207) |
| **Other Revenues (Expenses)** | | |
| Capital gifts and grants | **134,498** | 51,934 |
| State capital appropriations | | 100 |
| Private gifts for permanent endowment purposes | **77,567** | 55,742 |
| Other | **(12,384)** | 8,366 |
| **Total Other Revenues, Net** | **199,681** | 116,142 |
| Increase (decrease) in net position | **729,932** | (171,065) |
| Net position, Beginning of Year | **10,753,197** | 10,924,262 |
| **Net position, End of Year** | **$ 11,483,129** | $ 10,753,197 |

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

THE UNIVERSITY OF MICHIGAN

## Consolidated Statement of Cash Flows

| | Year Ended June 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| **Cash Flows From Operating Activities** | | |
| Student tuition and fees | **$ 1,065,578** | $ 1,003,383 |
| Federal, state and local grants and contracts | **914,079** | 899,174 |
| Nongovernmental sponsored programs | **158,017** | 149,902 |
| Sales and services of educational departments and other | **298,140** | 295,671 |
| Patient care revenues | **2,726,203** | 2,549,627 |
| Student residence fees | **88,801** | 93,892 |
| Payments to employees | **(3,063,397)** | (2,962,246) |
| Payments for benefits | **(872,199)** | (806,769) |
| Payments to suppliers | **(1,501,979)** | (1,427,728) |
| Payments for scholarships and fellowships | **(123,287)** | (121,025) |
| Student loans issued | **(14,377)** | (14,761) |
| Student loans collected | **17,339** | 17,497 |
| Student loan interest and fees collected | **2,808** | 2,772 |
| **Net Cash Used in Operating Activities** | **(304,274)** | (320,611) |
| **Cash Flows From Investing Activities** | | |
| Interest and dividends on investments, net | **55,231** | 55,934 |
| Proceeds from sales and maturities of investments | **3,849,010** | 3,583,260 |
| Purchases of investments | **(3,804,124)** | (3,704,732) |
| Net (increase) decrease in cash equivalents from noncurrent investments | **(50,795)** | 209,804 |
| Net increase (decrease) in deposits of affiliates and others | **14,678** | (3,002) |
| **Net Cash Provided by Investing Activities** | **64,000** | 141,264 |
| **Cash Flows From Capital and Related Financing Activities** | | |
| Private gifts and other receipts | **93,820** | 58,056 |
| State capital appropriations | | 100 |
| Proceeds from issuance of capital debt | **500,053** | 326,730 |
| Principal payments on capital debt | **(489,259)** | (189,366) |
| Interest payments on capital debt, net of capitalized interest | **(54,792)** | (47,895) |
| Federal subsidies for Build America Bonds interest | **8,258** | 8,258 |
| Payments for bond refunding and related costs | **(1,500)** | (650) |
| Purchases of capital assets, including capitalized interest | **(520,926)** | (592,357) |
| Proceeds from sales of capital assets | **1,055** | 890 |
| **Net Cash Used in Capital and Related Financing Activities** | **(463,291)** | (436,234) |
| **Cash Flows From Noncapital Financing Activities** | | |
| State educational appropriations | **314,405** | 317,454 |
| Federal Pell grants | **43,247** | 45,288 |
| Private gifts and other receipts | **207,982** | 177,698 |
| Student direct lending receipts | **345,412** | 371,963 |
| Student direct lending disbursements | **(346,634)** | (372,703) |
| Amounts received for annuity and life income funds | **8,828** | 4,886 |
| Amounts paid to annuitants and life beneficiaries and related expenses | **(7,038)** | (6,849) |
| **Net Cash Provided by Noncapital Financing Activities** | **566,202** | 537,737 |
| Net decrease in cash and cash equivalents | **(137,363)** | (77,844) |
| Cash and Cash Equivalents, Beginning of Year | **238,690** | 316,534 |
| **Cash and Cash Equivalents, End of Year** | **$ 101,327** | $ 238,690 |

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

THE UNIVERSITY OF MICHIGAN

## Consolidated Statement of Cash Flows--Continued

| | Year Ended June 30, 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | **$ (803,733)** | $ (803,491) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation expense | **476,898** | 443,132 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | **(74,109)** | (48,579) |
| Prepaid expenses and other assets | **9,919** | (7,199) |
| Accounts payable | **32,969** | 36,526 |
| Accrued compensation and other | **5,228** | (4,177) |
| Unearned revenue | **13,415** | 7,165 |
| Insurance and benefits reserves | **8,612** | 21,100 |
| Obligations for postemployment benefits | **26,527** | 34,912 |
| Net cash used in operating activities | **$ (304,274)** | $ (320,611) |

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 approximately 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 the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The 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.

During 2013, the University adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. The adoption of this statement did not have a material impact on the University's financial statements.

## Note 1--Organization and Summary of Significant Accounting Policies--Continued

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 whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net 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 that is 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 academic and research programs and initiatives and capital programs.

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.

**Note 1--Organization and Summary of Significant Accounting Policies--Continued**

Investments in nonmarketable limited partnerships are generally carried at fair value provided by the management of the investment partnerships as of March 31, 2013 and 2012, as adjusted by cash receipts, cash disbursements and securities distributions through June 30, 2013 and 2012, in order to provide an approximation of fair value at June 30. In addition, the carrying amount of these investments is adjusted for June 30 information from management of the investment partnerships when necessary to provide a reasonable estimate of fair value as of June 30, 2013 and 2012. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

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

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

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

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

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

## Note 1--Organization and Summary of Significant Accounting Policies--Continued

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 means. 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 $1,339,000,000 and $1,193,000,000 at June 30, 2013 and 2012, 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. Patient care services are primarily provided through the University of Michigan Health System, which includes the Hospitals and Health Centers, the Faculty Group Practice of the University of Michigan Medical School and the Michigan Health Corporation. Patient care services are also provided through University Health Services, which provides health care services to students, faculty and staff and Dental Faculty Associates, which provides dental care services performed by faculty dentists.

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 $54,803,000 and $34,811,000 in 2013 and 2012, respectively.

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

The University's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net 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 are recorded as nonoperating revenues, as defined by GASB, 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.

<u>Reclassifications</u>: Certain prior year amounts have been reclassified to conform with current year presentations.

## 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 insurance reserves, endowments and charitable remainder trusts, unexpended bond proceeds and other funds with investment restrictions outside of the Daily, Monthly and Long Term Portfolios.

**Note 2--Cash and Investments--Continued**

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. Commencing with the quarter ending September 30, 2010, the annual distribution rate began to be reduced from 5 percent of the one-quarter lagged seven year moving average fair value of fund shares to 4.5 percent. Distributions are being managed toward the new rate by keeping quarter to quarter distributions per share unchanged and moving toward the 4.5 percent rate when increases in the value of fund shares would otherwise result in higher per share distributions. 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 $101,327,000 and $238,690,000 at June 30, 2013 and 2012, 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 ("FDIC") limits in the amount of $13,026,000 and $92,000 at June 30, 2013 and 2012, respectively. Under FDIC rules implemented during 2011, the University's noninterest-bearing transaction accounts had temporarily unlimited insurance coverage through December 31, 2012. Effective January 1, 2013, the FDIC reduced its coverage to $250,000 per insured depository institution. The University does not require its deposits to be collateralized or insured.

## Note 2--Cash and Investments--Continued

Investments: At June 30, 2013 and 2012, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Cash equivalents, noncurrent | $ 88,641 | $ 37,846 |
| Fixed income securities | 2,034,823 | 1,640,239 |
| Commingled funds | 1,864,955 | 1,630,173 |
| Equity securities | 910,308 | 783,792 |
| Nonmarketable alternative investments | 5,019,809 | 5,029,814 |
| Other investments | 6,151 | 8,818 |
| | $ 9,924,687 | $ 9,130,682 |

The University's investment strategy, like that of most other institutions, incorporates certain financial instruments that involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forwards, futures and commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of a counterparty default is typically limited to the amounts recognized in the statement of net 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.

## Note 2--Cash and Investments--Continued

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 4.5 years at June 30, 2013, compared to 5.6 years at June 30, 2012. The University manages the effective duration of its fixed income securities at the account level, where fixed income managers generally may not deviate from the duration of their respective benchmarks by more than 25 percent.

The composition of fixed income securities at June 30, 2013 and 2012, along with credit quality and effective duration measures, is summarized as follows:

| 2013 | U.S. Government | Investment Grade | Non-Investment Grade (in thousands) | Not Rated | Total | Duration (in years) |
|---|---|---|---|---|---|---|
| U.S. Treasury | $ 532,978 | | | | $ 532,978 | 2.7 |
| U.S. Treasury inflation protected | 319,351 | | | | 319,351 | 2.9 |
| U.S. government agency | 378,079 | $ 2,884 | | | 380,963 | 0.5 |
| Mortgage backed | | 33,459 | $ 20,331 | $ 1,365 | 55,155 | 1.7 |
| Asset backed | | 21,354 | 2,184 | | 23,538 | 4.9 |
| Corporate and other | | 653,778 | 58,152 | 10,908 | 722,838 | 8.8 |
| | $ 1,230,408 | $ 711,475 | $ 80,667 | $ 12,273 | $ 2,034,823 | 4.5 |

| 2012 | U.S. Government | Investment Grade | Non-Investment Grade (in thousands) | Not Rated | Total | Duration (in years) |
|---|---|---|---|---|---|---|
| U.S. Treasury | $ 251,671 | | | | $ 251,671 | 4.7 |
| U.S. Treasury inflation protected | 351,700 | | | | 351,700 | 4.6 |
| U.S. government agency | 218,340 | | | | 218,340 | 0.6 |
| Mortgage backed | | $ 27,593 | $ 19,322 | $ 1,999 | 48,914 | 0.4 |
| Asset backed | | 31,680 | 2,091 | | 33,771 | 2.3 |
| Corporate and other | | 717,245 | 11,462 | 7,136 | 735,843 | 8.4 |
| | $ 821,711 | $ 776,518 | $ 32,875 | $ 9,135 | $ 1,640,239 | 5.6 |

**Note 2--Cash and Investments--Continued**

Of the University’s fixed income securities, 95 percent and 97 percent were rated investment grade or better at June 30, 2013 and 2012, and 64 percent and 55 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, 2013 and 2012, respectively.

Commingled (pooled) funds include Securities and Exchange Commission regulated mutual funds and externally managed funds, limited partnerships and corporate structures which are generally unrated and unregulated. Certain commingled funds may use derivatives, short positions and leverage as part of their investment strategy. These investments are structured to limit the University's risk exposure to the amount of invested capital. The composition of commingled funds at June 30, 2013 and 2012 is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| | (in thousands) | |
| Absolute return | $ 795,019 | $ 772,830 |
| U.S. equities | 265,073 | 225,631 |
| Non-U.S./global equities | 746,108 | 590,330 |
| U.S. fixed income | 51,007 | 33,714 |
| Other | 7,748 | 7,668 |
| | $ 1,864,955 | $ 1,630,173 |

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, 2013 and 2012, approximately 72 percent and 71 percent are redeemable within one year, with 50 and 48 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.

**Note 2--Cash and Investments--Continued**

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is no active secondary market for these alternative investments, which are generally unrated and unregulated, and the liquidity of these investments is dependent on actions taken by the general partner. The composition of these partnerships at June 30, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Private equity | $ 1,293,353 | $ 1,295,654 |
| Real estate | 1,281,143 | 1,176,080 |
| Venture capital | 948,372 | 959,906 |
| Absolute return | 766,836 | 797,173 |
| Natural resources | 730,105 | 801,001 |
| | $ 5,019,809 | $ 5,029,814 |

The University's limited partnership investments are diversified in terms of manager selection and industry and geographic focus. At June 30, 2013 and 2012, 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.

## Note 2--Cash and Investments--Continued

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 $959,154,000, or 10 percent of total investments at June 30, 2013, and $993,456,000, or 11 percent of total investments at June 30, 2012. Non-U.S. dollar exposures are summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Euros | $ 745,144 | $ 554,088 |
| British pounds sterling | 195,440 | 152,504 |
| Canadian dollar | 45,391 | 79,117 |
| Japanese yen | 60,882 | 51,082 |
| Other | (87,703) | 156,665 |
| | $ 959,154 | $ 993,456 |

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 Monthly Portfolio held positions in bond futures at June 30, 2013, while the Daily and Monthly Portfolios held positions in bond futures at June 30, 2012. Bond futures are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios. During 2013, the University removed the bond futures overlay in the Daily Portfolio to shorten its duration.

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 $41,443,000 and $51,987,000 in securities loans outstanding at June 30, 2013 and 2012, 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 insure that borrowed securities are never less than 100 percent collateralized. At June 30, 2013, collateral of $43,000,000 (104 percent of securities on loan) includes invested cash of $40,975,000 and U.S. government securities of $2,025,000, while at June 30, 2012, collateral of $54,300,000 (104 percent of securities on loan) consisted entirely of invested cash.

## Note 2--Cash and Investments--Continued

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, 2013 and 2012 is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| | (in thousands) | |
| Patient care | $ 608,538 | $ 529,079 |
| Sponsored programs | 96,099 | 84,303 |
| State educational appropriations | 57,440 | 55,924 |
| Student accounts | 24,145 | 23,482 |
| Other | 43,083 | 36,750 |
| | 829,305 | 729,538 |
| Less provision for uncollectible accounts receivable | 254,495 | 234,751 |
| | $ 574,810 | $ 494,787 |

## Note 4--Notes and Pledges Receivable

The composition of notes and pledges receivable at June 30, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Notes: | | |
| Federal student loan programs | $ 85,793 | $ 87,628 |
| University student loan funds | 18,829 | 19,916 |
| Other | 488 | 537 |
| | 105,110 | 108,081 |
| Less allowance for doubtfully collectible notes | 3,100 | 3,100 |
| Total notes receivable, net | 102,010 | 104,981 |
| Gift pledges: | | |
| Capital | 124,088 | 91,054 |
| Operations | 108,257 | 73,896 |
| | 232,345 | 164,950 |
| Less: | | |
| Allowance for doubtfully collectible pledges | 6,455 | 11,303 |
| Unamortized discount to present value | 2,270 | 2,383 |
| Total pledges receivable, net | 223,620 | 151,264 |
| Total notes and pledges receivable, net | 325,630 | 256,245 |
| Less current portion | 118,648 | 59,553 |
| | $ 206,982 | $ 196,692 |

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

**Note 4--Notes and Pledges Receivable--Continued**

Payments on pledges receivable at June 30, 2013 are expected to be received in the following years ended June 30 (in thousands):

| | |
|---|---|
| 2014 | $ 104,405 |
| 2015 | 40,275 |
| 2016 | 24,071 |
| 2017 | 17,069 |
| 2018 | 13,619 |
| 2019 and after | 32,906 |
| | $ 232,345 |

As discussed in Note 1, permanent endowment pledges do not meet eligibility requirements, as defined by GASB, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $48,080,000 and $57,642,000 at June 30, 2013 and 2012, respectively, are not recognized as assets in the accompanying financial statements. In addition, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met because of uncertainties with regard to their realizability and valuation.

## Note 5--Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 is summarized as follows:

| | 2013 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Retirements | Ending Balance |
| | (in thousands) | | | |
| Land | $ 94,743 | $ 6,171 | | $ 100,914 |
| Land improvements | 111,806 | 5,238 | $ 4,743 | 112,301 |
| Infrastructure | 223,292 | 8,566 | | 231,858 |
| Buildings | 6,775,245 | 245,338 | 121,688 | 6,898,895 |
| Construction in progress | 226,816 | 101,602 | | 328,418 |
| Property held for future use | 47,073 | (16,294) | | 30,779 |
| Equipment | 1,692,537 | 145,460 | 98,162 | 1,739,835 |
| Library materials | 495,702 | 23,020 | | 518,722 |
| | 9,667,214 | 519,101 | 224,593 | 9,961,722 |
| Less accumulated depreciation | 4,329,550 | 476,898 | 214,126 | 4,592,322 |
| | $ 5,337,664 | $ 42,203 | $ 10,467 | $ 5,369,400 |

| | 2012 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Retirements | Ending Balance |
| | (in thousands) | | | |
| Land | $ 94,365 | $ 378 | | $ 94,743 |
| Land improvements | 106,849 | 5,065 | $ 108 | 111,806 |
| Infrastructure | 217,591 | 5,701 | | 223,292 |
| Buildings | 6,021,971 | 850,314 | 97,040 | 6,775,245 |
| Construction in progress | 824,907 | (598,091) | | 226,816 |
| Property held for future use | 53,823 | (6,750) | | 47,073 |
| Equipment | 1,628,714 | 312,096 | 248,273 | 1,692,537 |
| Library materials | 473,414 | 22,288 | | 495,702 |
| | 9,421,634 | 591,001 | 345,421 | 9,667,214 |
| Less accumulated depreciation | 4,228,461 | 443,132 | 342,043 | 4,329,550 |
| | $ 5,193,173 | $ 147,869 | $ 3,378 | $ 5,337,664 |

The increase in construction in progress of $101,602,000 in 2013 represents the amount of capital expenditures for new projects of $441,873,000 net of assets placed in service of $340,271,000. The decrease in construction in progress of $598,091,000 in 2012 represents the amount of capital expenditures for new projects of $498,442,000 net of assets placed in service of $1,096,533,000. Interest of $1,504,000 and $6,073,000 was capitalized in 2013 and 2012, respectively.

## Note 6--Long-term Debt

Long-term debt at June 30, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Commercial Paper: | | |
| Tax-exempt, variable rate (.14%)* | $ 44,395 | $ 57,575 |
| Taxable, variable rate (.14%)* | 10,945 | 5,370 |
| General Revenue Bonds: | | |
| Series 2013A, 2.00% to 5.00% through 2029 | 53,510 | |
| unamortized premium | 2,861 | |
| Series 2012A, variable rate (.05%)* through 2036 | 50,000 | 50,000 |
| Series 2012B, variable rate (.02%)* through 2042 | 65,000 | 65,000 |
| Series 2012C, 2.00% to 5.00% through 2017 | 83,920 | 89,605 |
| unamortized premium | 11,426 | 13,802 |
| Series 2012D-1, variable rate (.01%)* to fixed via swap through 2025 | 75,745 | |
| deferred amount on refunding | (18,796) | |
| Series 2012D-2, variable rate (.04%)* to fixed via swap through 2026 and variable rate 2027 through 2030 | 82,645 | |
| deferred amount on refunding | (7,539) | |
| Series 2012E**, variable rate (.26%)* through 2033 | 95,029 | |
| Series 2012F**, variable rate (.46%)* through 2043 | 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 | 171,440 | 178,820 |
| unamortized premium | 12,748 | 14,363 |
| Series 2010D, taxable-Build America Bonds, 1.051% to 5.333% through 2041 | 204,655 | 212,345 |
| Series 2009A, 2.50% to 5.00% through 2029 | 79,305 | 86,680 |
| Series 2009B, variable rate (.13%)* through 2039 | 118,710 | 118,710 |
| unamortized premium | 6,273 | 6,724 |
| Series 2009D, taxable-Build America Bonds, 5.155% to 6.172% through 2030 | 89,815 | 89,815 |
| Series 2008A, variable rate (.05%)* through 2038 | 105,810 | 105,810 |
| Series 2008B, variable rate (.05%)* to fixed via swap through 2026 and variable rate 2027 through 2028 | 101,240 | 106,665 |
| Series 2005A, 5.00% through 2018 | 12,830 | 17,560 |
| unamortized premium | 426 | 704 |
| unamortized loss on extinguishment | (37) | (72) |
| Series 2002, variable rate (.05%)* to fixed via swap through 2018 and variable rate 2019 through 2032 | 89,080 | 95,035 |
| General Revenue Refunding Bonds: | | |
| Series 2003, 3.50% to 5.00% through 2015 | 1,365 | 6,745 |
| unamortized premium | 23 | 118 |
| unamortized loss on extinguishment | (2) | (18) |
| Hospital Revenue Bonds: | | |
| Series 2007A, variable rate | | 26,195 |
| Series 2007B, variable rate | | 44,310 |
| Series 2005A, variable rate | | 69,315 |
| Series 2005B, variable rate | | 61,900 |
| Hospital Revenue Refunding Bonds: | | |
| Series 2002A, fixed rate | | 35,015 |
| unamortized premium | | 213 |
| unamortized loss on extinguishment | | (1,251) |
| Series 1998A-2, variable rate | | 44,670 |
| Medical Service Plan Revenue Bonds, Series 1995A, variable rate | | 26,200 |
| Medical Service Plan Revenue Refunding Bonds, Series 1998A-1, variable rate | | 33,595 |
| Housing Energy Conservation HUD Loan, fixed rate | | 1,636 |
| | 1,806,902 | 1,826,264 |
| Less: | | |
| Commercial paper and current portion of bonds payable | 117,907 | 135,193 |
| Long-term bonds payable subject to remarketing, net | 267,060 | 482,202 |
| | $ 1,421,935 | $ 1,208,869 |

* Denotes variable rate at June 30, 2013
** Denotes variable rate bonds not subject to remarketing

## Note 6--Long-term Debt--Continued

Certain variable rate bonds have remarketing features which allow bondholders to put debt back to the University. Accordingly, variable rate bonds payable with such remarketing features 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, 2013 and 2012 is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| | (in thousands) | |
| Variable rate bonds payable subject to remarketing | $ 688,230 | $ 847,405 |
| Less: | | |
| Current principal maturities | 18,405 | 17,635 |
| Long-term liquidity agreements: | | |
| Unsecured line of credit | 150,000 | 150,000 |
| Standby bond purchase agreements | 252,765 | 197,568 |
| Long-term bonds payable subject to remarketing, net | $ 267,060 | $ 482,202 |

The University's available line of credit and standby bond purchase agreements were entirely unused at June 30, 2013.

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.

## Note 6--Long-term Debt--Continued

Long-term debt activity and the type of revenue it is supported by for the year ended June 30, 2013 is summarized as follows:

| | Beginning Balance | Additions (in thousands) | Reductions | Ending Balance |
|---|---|---|---|---|
| Commercial Paper: | | | | |
| General revenues | $ 62,945 | $ 88,257 | $ 95,862 | $ 55,340 |
| Bonds and Notes: | | | | |
| General revenues | 1,421,521 | 411,796 | 81,755 | 1,751,562 |
| Hospital revenues | 280,367 | | 280,367 | - |
| Faculty Group Practice revenues | 59,795 | | 59,795 | - |
| Student residences revenues | 1,636 | | 1,636 | - |
| | $ 1,826,264 | $ 500,053 | $ 519,415 | $ 1,806,902 |

The University maintains a combination of variable and fixed rate debt, with effective interest rates that averaged approximately 2.2 percent and 2.3 percent in 2013 and 2012, respectively, including the amortization of bond premiums and discounts and net of federal subsidies for interest on taxable Build America Bonds. The University utilizes commercial paper to provide interim financing for its capital improvement program. The Board of Regents has authorized the issuance of up to $150,000,000 in commercial paper backed by a general revenue pledge. Outstanding commercial paper debt is converted to long-term debt financing, as appropriate, within the normal course of business.

During 2013, the University issued $408,840,000 of General Revenue Bonds with a net original issue premium of $2,956,000. Total bond proceeds of $411,796,000 were utilized to convert $22,865,000 of commercial paper to long-term debt, refund $266,275,000 of Hospital Revenue Bonds and $57,125,000 of Medical Service Plan Revenue Bonds, and provide $64,031,000 for capital projects and $1,500,000 for debt issuance costs. General Revenue Bonds issued in 2013 include $355,330,000 of variable rate bonds (Series 2012D-1, 2012D-2, 2012E, and 2012F) and $53,510,000 of fixed rate bonds (Series 2013A).

During 2012, the University issued $204,605,000 of General Revenue Bonds with a net original issue premium of $14,595,000. Total bond proceeds of $219,200,000 were utilized to convert $119,310,000 of commercial paper to long-term debt and provide $99,240,000 for capital projects and $650,000 for debt issuance costs. General Revenue Bonds issued in 2012 include $115,000,000 of variable rate bonds (Series 2012A and Series 2012B) and $89,605,000 of fixed rate bonds (Series 2012C).

## Note 6--Long-term Debt--Continued

Debt obligations are generally callable by the University and mature at various dates through fiscal 2043. Principal maturities and interest on debt obligations, based on scheduled bond maturities, for the next five years and in subsequent five-year periods are as follows:

| | Principal | Interest* (in thousands) | Total |
|---|---|---|---|
| 2014 | $ 111,674 | $ 42,160 | $ 153,834 |
| 2015 | 58,520 | 40,846 | 99,366 |
| 2016 | 54,655 | 39,469 | 94,124 |
| 2017 | 119,230 | 38,029 | 157,259 |
| 2018 | 51,815 | 33,445 | 85,260 |
| 2019-2023 | 282,345 | 146,659 | 429,004 |
| 2024-2028 | 338,895 | 107,589 | 446,484 |
| 2029-2033 | 313,195 | 58,516 | 371,711 |
| 2034-2038 | 340,295 | 32,128 | 372,423 |
| 2039-2043 | 128,895 | 5,767 | 134,662 |
| | 1,799,519 | $ 544,608 | $ 2,344,127 |
| Plus unamortized premiums, net | 33,718 | | |
| Less deferred amount on refunding | 26,335 | | |
| | $ 1,806,902 | | |

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2013; 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 2014 would increase to $378,734,000, total principal payments due in 2015 would increase to $401,440,000, total principal payments due in 2016 would increase to $226,420,000 and total principal payments due in 2017 would increase to $143,510,000. Accordingly, principal payments due in subsequent years would be reduced to $29,720,000 in 2018; $146,605,000 in 2019 through 2023; $220,960,000 in 2024 through 2028; $104,735,000 in 2029 through 2033; $92,925,000 in 2034 through 2038; and $54,470,000 in 2039 through 2043. There would not be a significant impact on annual interest payments due to the low variable rate of interest on these bonds.

## Note 7--Derivative Instruments

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*. For hedging derivative instruments that are effective in significantly reducing an identified financial risk, as defined by the Statement, the corresponding change in fair value is deferred and included in the statement of net 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, 2013 and 2012 are summarized as follows:

| | **2013** | | **2012** | |
|---|---|---|---|---|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| | | (in thousands) | | |
| Investment Derivative Instruments: | | | | |
| Investment portfolios: | | | | |
| Futures | $ 11,176 | $ (224) | $ 352,820 | $ 186 |
| Foreign currency forwards | 862,093 | (5,411) | 557,644 | (4,844) |
| Other | 79,430 | (2,537) | 87,019 | 314 |
| | $ 952,699 | $ (8,172) | $ 997,483 | $ (4,344) |
| Floating-to-fixed interest rate swap on debt | $ 34,450 | $ (2,069) | $ 40,405 | $ (3,600) |
| Effective Cash Flow Hedges: | | | | |
| Floating-to-fixed interest rate swaps on debt | $ 218,435 | $ (32,066) | $ 230,115 | $ (44,869) |

The University utilizes bond futures in its investment portfolios to adjust the duration of cash equivalents and fixed income securities, while foreign currency forward contracts are utilized to settle securities and transactions denominated in foreign (non-US dollar) currencies and manage foreign exchange risk. Other 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.

**Note 7--Derivative Instruments--Continued**

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

At June 30, 2013 and 2012, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is a liability of $34,135,000 and $48,469,000, respectively, and is included in the statement of net position as part of noncurrent other liabilities. The majority of the University's interest rate swaps qualify as effective hedges as defined by GASB Statement No. 53. The corresponding deferred outflow of resources for the fair value of swaps deemed effective cash flow hedges totaled $5,731,000 and $44,869,000, at June 30, 2013 and 2012, 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 $26,335,000 at June 30, 2013.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2013 and 2012 is summarized as follows:

| | **2013** | **2012** |
|---|---|---|
| | (in thousands) | |
| Investment Derivative Instruments: | | |
| Investment portfolios: | | |
| Futures | $ 947 | $ 18,998 |
| Foreign currency forwards | 21,305 | (1,198) |
| Other | (5,133) | (1,679) |
| | $ 17,119 | $ 16,121 |
| Floating-to-fixed interest rate swap on debt | $ 1,531 | $ (1,132) |
| Effective Cash Flow Hedges: | | |
| Floating-to-fixed interest rate swaps on debt | $ 12,803 | $ (16,257) |

**Note 7--Derivative Instruments--Continued**

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 $84,525,000 and $89,950,000 at June 30, 2013 and 2012, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. Effective from April 1, 2008, the University makes payments based on a fixed rate of 3.105 percent and receives variable rate payments from the swap counterparty based on 68 percent of One-Month USD LIBOR, until the swap terminates in April 2026. The University has the option to terminate the swap upon five business day written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2013 and 2012 and has a fair value of ($9,075,000) and ($13,610,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2005B Hospital Revenue Bonds has the notional amount of $58,315,000 and $61,900,000 at June 30, 2013 and 2012, 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 from December 1, 2005, the University makes payments based on a fixed rate of 3.229 percent and receives variable rate payments from the swap counterparty based on 68 percent of the One-Month USD LIBOR, until the bonds mature in December 2025. The University has the option to terminate the swap upon five business day written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2013 and 2012 and has a fair value of ($6,414,000) and ($9,365,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2002 General Revenue Bonds has a notional amount of $34,450,000 and $40,405,000 at June 30, 2013 and 2012, respectively, covering a portion of the principal outstanding and the notional amount decreases as principal on the underlying bonds is repaid. Effective from June 1, 2007, the University makes payments based on a fixed rate of 3.5375 percent and receives variable rate payments from the swap counterparty based on 68 percent of One-Month USD LIBOR, through April 1, 2009, and 63 percent of the Five-Year USD LIBOR Swap Rate for the balance of the term, through April 2018. The University has the option to terminate the swap upon five business day written notice and payment of the fair market compensation for the value of the swap. This swap is not considered an effective hedge at June 30, 2013 and 2012 and has a fair value of ($2,069,000) and ($3,600,000), respectively.

## Note 7--Derivative Instruments--Continued

The floating-to-fixed interest rate swap associated with the Series 1998A-2 Hospital Revenue Refunding Bonds has a notional amount of $44,670,000 at June 30, 2013 and 2012 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 from May 14, 1998, the University makes payments based on a fixed rate of 4.705 percent and receives variable rate payments from the swap counterparty based on the floating Securities Industry and Financial Markets Association (SIFMA) Municipal Index through the final maturity dates of the underlying bonds in December 2024. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. This swap is considered an effective hedge at June 30, 2013 and 2012 and has a fair value of ($11,596,000) and ($15,416,000), 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 $30,925,000 and $33,595,000 at June 30, 2013 and 2012, 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 from May 14, 1998, the University makes payments based on a fixed rate of 4.685 percent and receives variable rate payments based on the floating SIFMA Municipal Index through the final maturity dates of the underlying bonds in December 2021. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. This swap is considered an effective hedge at June 30, 2013 and 2012 and has a fair value of ($4,981,000) and ($6,478,000), respectively.

Using rates in effect at June 30, 2013, the projected cash flows for the floating-to-fixed interest rate swaps deemed effective hedges in accordance with the provisions of GASB Statement No. 53, along with the debt service requirements of the associated variable rate debt, are summarized as follows:

| | Variable Rate Bonds | | Swap Payments, Net | Total Payments |
|---|---|---|---|---|
| | Principal | Interest | | |
| | (in thousands) | | | |
| 2014 | $ 12,165 | $ 90 | $ 7,681 | $ 19,936 |
| 2015 | 12,675 | 85 | 7,258 | 20,018 |
| 2016 | 13,205 | 80 | 6,827 | 20,112 |
| 2017 | 13,775 | 75 | 6,349 | 20,199 |
| 2018 | 14,020 | 70 | 5,880 | 19,970 |
| 2019-2023 | 84,930 | 269 | 21,566 | 106,765 |
| 2024-2028 | 98,440 | 110 | 9,477 | 108,027 |
| 2029-2030 | 10,420 | 3 | | 10,423 |
| | $ 259,630 | $ 782 | $ 65,038 | $ 325,450 |

**Note 7--Derivative Instruments--Continued**

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 because some of the variable payments paid to the University by the counterparties are based on a percentage of LIBOR. Basis risk is the risk that changes in the relationship between SIFMA and LIBOR may impact the synthetic fixed rate of the variable rate debt. The University is not exposed to credit risk because the swaps have negative fair values.

The University is 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 $611,000 and $2,389,000 at June 30, 2013 and 2012, respectively, on deposit with the 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 in May 2013, which is still outstanding at June 30, 2013; collateral is required when the mark-to-market reaches a minimum threshold of $3,000,000.

For certain floating-to-fixed interest rate swaps, the University was required to post collateral if the fair value of the liability of the swap reaches a minimum threshold. For the swap that was associated with the Series 1998A-1 Medical Service Plan Revenue Refunding Bonds, the University posted collateral of $1,200,000 during the first half of Fiscal 2013, which was returned in January 2013, and $1,200,000 for less than 90 days during Fiscal 2012. At June 30, 2013, there are no collateral requirements for interest rate swaps associated with the University's debt.

## Note 8--Self-Insurance

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

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

Changes in the total reported liability for insurance and benefits obligations for the years ended June 30, 2013 and 2012 are summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Balance, beginning of year | $ 186,976 | $ 165,876 |
| Claims incurred and changes in estimates | 474,310 | 464,826 |
| Claim payments | (465,698) | (443,726) |
| Balance, end of year | 195,588 | 186,976 |
| Less current portion | 86,173 | 84,155 |
| | $ 109,415 | $ 102,821 |

## 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 38,000 full-time permanent University employees may become eligible for these benefits if they reach retirement age while working for the University. For employees retiring on or after January 1, 1987, contributions toward health and welfare benefits are shared between the University and the retiree and can vary based on date of hire, date of retirement, age and coverage elections.

The University also provides income replacement benefits, retirement savings contributions and health and life insurance benefits to substantially all permanent University employees 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 the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Projections of benefits are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided and announced future changes at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The University implemented GASB Statement No. 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, 2013, the recorded liability for net postemployment benefits obligations and the actuarial accrued liability totaled $1,698,091,000 and $1,340,017,000, respectively.

**Notes to Consolidated Financial Statements--Continued**

## Note 9--Postemployment Benefits--Continued

Changes in the total reported liability for postemployment benefits obligations for the years ended June 30, 2013 and 2012 are summarized as follows:

| | 2013 | | |
|---|---|---|---|
| | Retiree Health and Welfare | Long-term Disability (in thousands) | Total |
| Balance, beginning of year | $ 1,531,220 | $ 140,344 | $ 1,671,564 |
| Service cost | 43,330 | 2,656 | 45,986 |
| Amortization of assumption changes, plan changes and net actuarial (gains) losses | (71,676) | 1,126 | (70,550) |
| Interest cost | 93,098 | 11,059 | 104,157 |
| Payments of current premiums and claims | (39,688) | (13,378) | (53,066) |
| Balance, end of year | 1,556,284 | 141,807 | 1,698,091 |
| Less current portion | 44,189 | 17,069 | 61,258 |
| | $ 1,512,095 | $ 124,738 | $ 1,636,833 |

| | 2012 | | |
|---|---|---|---|
| | Retiree Health and Welfare | Long-term Disability (in thousands) | Total |
| Balance, beginning of year | $ 1,498,395 | $ 138,257 | $ 1,636,652 |
| Service cost | 43,599 | 3,138 | 46,737 |
| Amortization of assumption changes, plan changes and actuarial (gains) losses | (62,590) | 222 | (62,368) |
| Interest cost | 91,102 | 10,895 | 101,997 |
| Payments of current premiums and claims | (39,286) | (12,168) | (51,454) |
| Balance, end of year | 1,531,220 | 140,344 | 1,671,564 |
| Less current portion | 42,402 | 13,729 | 56,131 |
| | $ 1,488,818 | $ 126,615 | $ 1,615,433 |

Since a portion of retiree medical services will be provided by the University's Health System, the liability for postemployment benefit obligations is net of the related margin and fixed costs of providing those services which totaled $290,402,000 of actuarial accrued liability at June 30, 2013 and $262,905,000 at June 30, 2012. In accordance with GASB Statement No. 45, the University's liability for postemployment benefit obligations at June 30, 2013 is not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods of approximately $170,000,000 on an actuarial accrued liability basis.

**Note 9--Postemployment Benefits--Continued**

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 $105,503,000 and $110,210,000 at June 30, 2013 and 2012, respectively. The University has no obligation to make contributions in advance of when insurance premiums or claims are due for payment and currently pays for postemployment benefits on a pay-as-you-go basis. The University's obligations for postemployment benefits at June 30, 2013, 2012 and 2011 as a percentage of covered payroll of $2,979,189,000, $2,826,760,000 and $2,665,924,000, was 57, 59 and 61 percent, respectively.

The University's liability for postemployment benefits obligations was calculated using the projected unit credit method. Significant actuarial methods and assumptions used in the valuation for years ended June 30, 2013 and 2012 are as follows:

| | 2013 | |
|---|---|---|
| | 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) |

| | 2012 | |
|---|---|---|
| | Retiree Health and Welfare | Long-term Disability |
| Discount Rate | 6.08% | 7.88% |
| Immediate/Ultimate Administrative Trend Rate | 3.0%/3.0% | 3.0%/3.0% |
| Immediate/Ultimate Medical Trend Rate | 6.0%-7.0%/5.0% | 6.0%-7.0%/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) |

During fiscal 2011, the University announced changes to eligibility requirements for retiree health benefits and the related amount of the University's contributions. To assist current employees with the transition, changes will be phased in gradually over the eight year period January 1, 2013 through January 1, 2021.

## Note 10--Retirement Plan

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

Eligible employees generally contribute 5 percent of their pay and the University generally contributes an amount equal to 10 percent of employees' pay to the plan. 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, 2013 are summarized as follows:

| | **2013** | **2012** | **2011** |
|---|---|---|---|
| | | (in thousands) | |
| University contributions | $ 234,036 | $ 226,517 | $ 214,905 |
| Employee contributions | $ 122,094 | $ 117,127 | $ 108,981 |
| Payroll covered under plan | $ 2,979,189 | $ 2,826,760 | $ 2,665,924 |
| Total payroll | $ 3,092,257 | $ 2,963,848 | $ 2,802,045 |

## Note 11--Net Position

The composition of net position at June 30, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| | (in thousands) | |
| Net investment in capital assets | $ 3,637,027 | $ 3,597,540 |
| Restricted: | | |
| Nonexpendable: | | |
| Permanent endowment corpus | 1,432,191 | 1,345,859 |
| Expendable: | | |
| Net appreciation of permanent endowments | 1,338,629 | 1,193,281 |
| Funds functioning as endowment | 1,748,356 | 1,597,480 |
| Restricted for operations and other | 602,223 | 492,878 |
| Unrestricted | 2,724,703 | 2,526,159 |
| | $ 11,483,129 | $ 10,753,197 |

Unrestricted net position, as defined by GASB, is not subject to externally imposed stipulations; however, they are 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, 2013 and 2012, all of the unrestricted net position has been designated for academic and research programs and initiatives and capital programs.

## Note 12--Federal Direct Lending Program

The University distributed $346,634,000 and $372,703,000 for the years ending June 30, 2013 and 2012, 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 receivable of $2,586,000 and $1,364,000 at June 30, 2013 and 2012, respectively, for DoED funding received subsequent to distribution.

## Note 13--Commitments and Contingencies

Authorized expenditures for construction and other projects unexpended as of June 30, 2013 were $1,173,130,000. Of these expenditures, approximately $1,131,377,000 will be funded by internal sources, gifts, grants and future borrowings and the remaining $41,753,000 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, 2013, the University had committed, but not paid, a total of $2,153,349,000 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):

| | |
|---|---|
| 2014 | $ 755,831 |
| 2015 | 536,200 |
| 2016 | 379,238 |
| 2017 | 193,636 |
| 2018 | 103,801 |
| 2019 and beyond | 184,643 |
| | $ 2,153,349 |

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

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

| | |
|---|---|
| 2014 | $ 29,481 |
| 2015 | 21,083 |
| 2016 | 11,775 |
| 2017 | 8,806 |
| 2018 | 5,590 |
| 2019-2023 | 19,040 |
| 2024-2027 | 5,541 |
| | $ 101,316 |

Operating lease expenses totaled $34,252,000 and $32,856,000 in 2013 and 2012, respectively.

## Note 13--Commitments and Contingencies--Continued

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

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

## Note 14--Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2013 and 2012 are summarized as follows:

**2013** (in thousands)

| | Compensation and Benefits | Supplies and Services | Depreciation | Scholarships and Fellowships | Total |
|---|---|---|---|---|---|
| Instruction | $ 797,370 | $ 127,157 | | | $ 924,527 |
| Research | 489,283 | 260,901 | | | 750,184 |
| Public service | 96,487 | 52,386 | | | 148,873 |
| Academic support | 194,688 | 47,467 | | | 242,155 |
| Student services | 70,961 | 21,364 | | | 92,325 |
| Institutional support | 145,676 | 50,668 | | | 196,344 |
| Operations and maintenance of plant | 41,371 | 214,907 | | | 256,278 |
| Auxiliary enterprises | 2,129,194 | 780,950 | | | 2,910,144 |
| Depreciation | | | $ 476,898 | | 476,898 |
| Scholarships and fellowships | | | | $ 123,287 | 123,287 |
| | $ 3,965,030 | $ 1,555,800 | $ 476,898 | $ 123,287 | $ 6,121,015 |

**2012** (in thousands)

| | Compensation and Benefits | Supplies and Services | Depreciation | Scholarships and Fellowships | Total |
|---|---|---|---|---|---|
| Instruction | $ 771,636 | $ 120,816 | | | $ 892,452 |
| Research | 488,738 | 230,004 | | | 718,742 |
| Public service | 87,945 | 41,659 | | | 129,604 |
| Academic support | 191,354 | 40,975 | | | 232,329 |
| Student services | 68,837 | 20,120 | | | 88,957 |
| Institutional support | 133,302 | 49,941 | | | 183,243 |
| Operations and maintenance of plant | 40,269 | 244,300 | | | 284,569 |
| Auxiliary enterprises | 2,022,144 | 725,850 | | | 2,747,994 |
| Depreciation | | | $ 443,132 | | 443,132 |
| Scholarships and fellowships | | | | $ 121,040 | 121,040 |
| | $ 3,804,225 | $ 1,473,665 | $ 443,132 | $ 121,040 | $ 5,842,062 |

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# APPENDIX B

# SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

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**Page**

The following is a summary of certain provisions of the Trust Agreement and of definitions of certain terms used therein and in this Official Statement. Reference is made to the Trust Agreement for a complete statement of the provisions thereof. Except as otherwise defined herein, words used in this summary which are defined in the Trust Agreement shall have the same meanings as set forth in the Trust Agreement.

## DEFINITIONS OF CERTAIN TERMS

**Authorized Denominations** means $5,000 or any integral multiple thereof.

**Authorized Officer** means any one of the Executive Vice President and Chief Financial Officer, the Associate Vice President for Finance, and the Treasurer, including any interim or acting officer appointed by the Issuer, or any other officer of the University authorized by the Issuer to perform any function under the Trust Agreement.

**Authorized Representative** means any of the Executive Vice President and Chief Financial Officer, the Associate Vice President for Finance, and the Treasurer, including any interim or acting officer appointed by the Issuer, or any other officer or employee of the Issuer designated by any of the foregoing officers in a certificate delivered to the Trustee.

**Balloon Indebtedness** means long-term indebtedness, or short-term indebtedness, or any portion thereof which is intended to be refinanced upon or prior to its maturity with indebtedness which will be outstanding for more than one year, forty percent (40%) or more of the initial principal amount of which matures or is subject to scheduled mandatory purchase or redemption requirements in any twelve month period, and which indebtedness, or portion thereof, is designated as Balloon Indebtedness in an Officer's Certificate.

**Bond** or **Bonds** means, collectively, the Series 2014A Bonds and the Series 2014B Bonds.

**Bond Index** means the "Revenue Bond Index," published most recently by The Bond Buyer, New York, New York. In the event that the Revenue Bond Index described in the preceding sentence is not available, then the Bond Index shall mean such index for comparable thirty (30) year maturity tax-exempt revenue bonds as shall be selected by the Issuer.

**Bond Payment Fund** means the "Regents of the University of Michigan General Revenue Bonds, Series 2014A/B Bond Payment Fund" created with and held by the Trustee pursuant to the Trust Agreement.

**Bond Proceeds Fund** means the "Regents of the University of Michigan General Revenue Bonds, Series 2014A/B Bond Proceeds Fund" created with and held by the Issuer pursuant to the Trust Agreement.

**Book Entry Bonds** means a Bond registered in the name of DTC, or its nominee, in its capacity as depository therefor, pursuant to a book-entry system of recording ownership interests in the Bond.

**Business Day** means a day other than (i) a Saturday and Sunday or (ii) a day on which any of the following are authorized or required to remain closed: (A) banks or trust companies in Michigan or New York, New York, (B) the Trustee, or (C) the New York Stock Exchange.

**Direct Participant** means a participant in the book-entry system of recording ownership interests in the Bonds.

**DTC** means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, in its capacity as depository for the Bonds, or any successor depository for any Bonds.

**Excluded Hospital Gross Revenues** means all or any portion of Hospital Gross Revenues that is excluded from the definition of "General Revenues" pursuant to the terms of the Trust Agreement, as described below under the caption *SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Excluded Hospital Gross Revenues*.

**General Revenues** means all receipts from fees, charges, and income from all or any part of the students of the University, whether tuition, instructional fees, tuition surcharges, activity fees, general fees, health fees or other special purpose fees (before allowances for scholarships); all gross income, revenues and receipts from the ownership, operation and control of the housing, dining and auxiliary systems of the University (before allowances for scholarships); all unrestricted revenues from departmental activities; all Hospital Gross Revenues; all patient service revenues, including all faculty group practice revenues (formerly referred to as medical service plan revenues) (but excluding patient service revenues included in Hospital Gross Revenues); all unrestricted grants, gifts, donations and pledges, and receipts therefrom (including but not limited to indirect cost recoveries allocated to general operations); and unrestricted investment income; but excluding all of the following:

(a) any deposits required by law or contract to be held in escrow;

(b) appropriations from the State Legislature;

(c) Excluded Hospital Gross Revenues; and

(d) revenues from The Veritas Insurance Corporation and Michigan Health Corporation.

**Government Obligations** means (i) direct obligations (relating to principal, interest or both) of the United States of America (including obligations issued or held in book-entry form), (ii) obligations (relating to principal, interest or both) the timely payment of which are fully guaranteed by the United States of America, including the interest portion of Resolution Funding Corporation bonds stripped by the Federal Reserve Bank of New York and held in book-entry form, (iii) certificates which evidence ownership of the right to the payment of the principal of and/or interest on obligations described in clauses (i) and (ii) provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a special account separate from the general assets of such custodian and (iv) state or municipal obligations the timely payment of the principal of and interest on which are fully provided for by the deposit in trust or escrow of cash or non-callable obligations described in the preceding clauses (i), (ii) and/or (iii).

**Holder** or **Bondholder** or **Owner**, when used herein with respect to the Bonds, means the person in whose name such Bond is registered.

**Hospital** means all facilities now or hereafter owned, leased or operated, in whole or in part, by the Issuer (including any facility in which the Issuer directly or indirectly owns, leases or otherwise acquires a percentage or participating interest) and used for the provision of hospital services wherever located (but only to the extent that such facilities are used directly or indirectly for hospital services and only to the extent of the Issuer's percentage or participation interest).

**Hospital Gross Revenues** means all revenues, income, receipts and money received by or on behalf of the Issuer with respect to or arising from the operation of the Hospital, including but not limited to (a) gross revenues derived from its operation and possession of the Hospital and (b) proceeds with respect to, arising from or relating to the operation of the Hospital, and derived from (i) insurance, (ii) accounts receivable, (iii) disposition of inventory and other tangible and intangible property, (iv) medical or hospital expense reimbursement or insurance programs or agreements, (v) investment earnings or profits on funds held by the Issuer for the account or benefit of the Hospital and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Hospital by the Issuer, but excluding: faculty group practice or other physician, dentist or similar payments corresponding to fees for professional services received by the Hospital; allowances under contractual arrangements with third party payers; charges for services classified as charity care; and bad debts.

**Interest Payment Date** means each April 1 and October 1, commencing October 1, 2014.

**Investment Income** means all interest earned and gains and losses realized through the investment and reinvestment of moneys in the Bond Payment Fund.

**Issuer** means the Regents of the University of Michigan, a constitutional body corporate existing under Article VIII, Section 5 of the Michigan Constitution of 1963, as amended.

**Legally Available Funds** means any moneys of the Issuer that may be legally used by the Issuer to pay the Bonds, but shall not include any funds (a) currently or subsequently pledged for, or committed to present or future loans, bonds or debt service on other obligations, or other purposes to the extent so pledged or committed, or (b) the use of which would result in the Bonds being construed as a general obligation of the Issuer or as indebtedness of the State of Michigan under the Michigan Constitution of 1963.

**Lien** means any pledge, lien, security interest, encumbrance or charge of any kind on or in any General Revenues.

**Moody's** means Moody's Investors Service, Inc., a Delaware corporation, and its successors.

**Officer's Certificate** means a certificate, a certified copy of which shall be mailed or delivered to the Trustee, signed by an Authorized Officer.

**Opinion of Bond Counsel** means an opinion of nationally recognized municipal bond counsel addressed to the Issuer and the Trustee to the effect that the action proposed to be taken will not cause interest on the Series 2014A Bonds to be includible in the gross income of the owners of such Series 2014A Bonds for purposes of federal income taxation and such action is authorized or permitted by the Trust Agreement.

**Original Issue Date** means the date on which the Bonds are delivered to the original purchasers thereof.

**Outstanding** or **outstanding**, (a) when used with reference to the Bonds means, as of any date, all Bonds delivered under the Trust Agreement, except (i) Bonds theretofore paid or redeemed or acquired by the Issuer and surrendered to the Trustee for cancellation, (ii) Bonds for which the Issuer shall have made provision for payment as provided in the Trust Agreement, or (iii) Bonds in lieu of which other Bonds have been issued under the Trust Agreement, and (b) when used with reference to other Parity Bonds or additional subordinate obligations, means, as of any date, bonds, notes or other obligations issued and not deemed paid, redeemed, cancelled, defeased or otherwise no longer outstanding under the instrument pursuant to which they were issued.

**Parity Bonds** means, while outstanding, the Bonds, the Prior General Revenue Obligations and any bonds, notes or other obligations of the Issuer, secured on a parity basis with the Bonds by a Lien of General Revenues, and issued pursuant to the terms of the Trust Agreement.

**Permitted Investments** means and includes any of the following: (i) Government Obligations; (ii) Government Obligations which have been stripped by the U.S. Treasury of their unmatured interest coupons, interest coupons stripped by the U.S. Treasury from Government Obligations, and receipts or certificates evidencing payments from Government Obligations or interest coupons stripped by the U.S. Treasury from Government Obligations; (iii) bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Banks; Federal Home Loan Mortgage Corporation (including participation certificates); Federal Land Banks; any other agency or instrumentality of the United States of America (created by an Act of Congress) substantially similar to the foregoing in its legal relationship to the United States of America rated at the time of purchase at least Aa3 by Moody's and AA- by S&P; Federal National Mortgage Association; Government National Mortgage Association; or Student Loan Marketing Association; (iv) interest-bearing time or demand deposits, certificates of deposit, repurchase agreements or other similar banking arrangements with (a) the Trustee so long as the Trustee is rated at least A- by S&P and at least A3 by Moody's or (b) any government securities dealer, bank, trust company, national banking association or other savings institution, provided that such deposits, certificates, repurchase agreements and other arrangements are (x) fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (y) fully collateralized by Permitted Investments defined in (i), (ii) and (iii) above and (z) in or with a government securities dealer rated at least A3 by Moody's and at least A- by S&P, a bank, trust company, national banking association or other savings institution, rated in any of the three highest rating categories by S&P and by Moody's; (v) commercial paper, rated at the time of purchase at least P-1 by Moody's and at least A-1 by S&P and (vi) money market mutual funds (a) maintaining a rating of A or above by S&P or approved by S&P and (b) maintaining a rating of A or above by Moody's or approved by Moody's; provided, however, if Moody's or S&P do not rate the Bonds, the various ratings by Moody's or S&P, respectively, listed above shall not be required.

**Person** means a natural person, firm, joint venture, limited liability company, corporation, partnership, association, joint stock company, trust, any unincorporated organization or a governmental unit or political subdivision thereof.

**Prior General Revenue Obligations** means, collectively, (i) the Series 2002 Bonds, the Series 2003 Bonds, the Series 2005A Bonds, the Series 2008A Bonds, the Series 2008B Bonds, the Series 2009A Bonds, the Series 2009B Bonds, the Series 2009D Bonds, the Series 2010A Bonds, the Series 2010C Bonds, the Series 2010D Bonds, the Series 2012A Bonds, the Series 2012B Bonds, the Series 2012C Bonds, the Series 2012D-1 Bonds, the Series 2012D-2 Bonds, the Series 2012E Bonds, the Series 2012F Bonds and the Series 2013A Bonds (each as defined in the Trust Agreement) and certain interest rate swap transactions and standby bond purchase agreements related to the foregoing, (ii) the Issuer's Commercial Paper Notes, Series E (Taxable), (iii) the Issuer's Commercial Paper Notes, Series I, (iv) the obligations of the Issuer under the Revolving Credit Agreement, dated June 28, 2012, as amended, between the Issuer and The Bank of New York Mellon, as the same has been or may be extended in accordance with its terms or increased, and (v) any and all other outstanding obligations of the Issuer for which the Issuer has pledged a Lien on General Revenues purporting to be on a parity with any of the foregoing.

**Projects** means, collectively, the Series 2014A Projects and the Series 2014B Project.

**Rating Service** means Moody's, if the Bonds are rated by Moody's, and S&P, if the Bonds are rated by S&P, or their respective successors and assigns.

**Record Date** means, with respect to each Interest Payment Date, the close of business on the fifteenth ($15^{th}$) day of the calendar month immediately preceding any calendar month in which there occurs an Interest Payment Date, regardless of whether such day is a Business Day.

**Resolution** means the bond authorizing resolution adopted by the Issuer on December 19, 2013, authorizing the issuance of the Bonds and authorizing the execution and delivery of the Bonds and the Trust Agreement.

**S&P** means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and its successors and assigns.

**Series 2014A Bonds** means the $83,065,000 Regents of the University of Michigan General Revenue Bonds, Series 2014A, issued pursuant to the Trust Agreement.

**Series 2014A Projects** means the capital projects described in the Trust Agreement as being financed in whole or in part with the proceeds of the Series 2014A Bonds.

**Series 2014B Bonds** means the $9,220,000 Regents of the University of Michigan General Revenue Bonds, Series 2014B (Taxable), issued pursuant to the Trust Agreement.

**Series 2014B Project** means the capital project described in the Trust Agreement as being financed in whole or in part with the proceeds of the Series 2014B Bonds.

**SIFMA Municipal Index** means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association ("SIFMA"), or any Person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Trustee, and effective from such date. In the event that the SIFMA Municipal Index as described in the preceding sentence is not available or cannot be determined, then the SIFMA Municipal Index will be a comparable or successor index selected by the Issuer.

**State** means the State of Michigan.

**Trustee** means U.S. Bank National Association, or its successors as trustee under the Trust Agreement.

**University** means The University of Michigan.

**Variable Rate Indebtedness** means indebtedness that bears interest at a variable, adjustable or floating rate.

## AUTHORIZATION OF BONDS AND OTHER MATTERS RELATING THERETO

*Principal Amount and Designation of Bonds; Bond Terms*. Two series of bonds designated as "General Revenue Bonds, Series 2014A" (the "Series 2014A Bonds") and "General Revenue Bonds, Series 2014B (Taxable)" (the "Series 2014B Bonds") are authorized to be issued pursuant to the provisions of the Trust Agreement. The Series 2014A Bonds are authorized to be issued in the aggregate principal amount of Eighty-Three Million Sixty-Five Thousand Dollars ($83,065,000), and the Series 2014B Bonds are authorized to be issued in the aggregate principal amount of Nine Million Two Hundred Twenty Thousand Dollars ($9,220,000). The Bonds of each series shall be dated as of the Original Issue Date, shall be issued in fully registered form in Authorized Denominations, and shall be numbered consecutively beginning with R-1.

Interest on the Bonds shall be payable on each Interest Payment Date until maturity or prior redemption, in immediately available funds, payable by check mailed to each registered owner of a Bond on the Record Date immediately preceding such Interest Payment Date to the address thereof as it appears on the registry books of the Trustee, or, at the request of a registered owner of $1,000,000 or more of the Bonds, by wire transfer to such registered owner at the wire transfer address in the continental United States to which such registered owner has not later than the Record Date immediately preceding such Interest Payment Date directed the Trustee to wire such interest payment; provided, however, that interest payable on any Interest Payment Date during which the Bonds are Book Entry Bonds shall be paid by wire transfer to DTC or its nominee, at the wire transfer address therefor. Interest payable on each Interest Payment Date shall be the interest accrued and unpaid to and including the day preceding such Interest Payment Date. Interest on the Bonds shall be computed on the basis of a three hundred sixty (360) day year of twelve thirty (30) day months. If any Interest Payment Date is not a Business Day, interest shall be payable on the next succeeding Business Day with the same force and effect as if made on such Interest Payment Date, and interest shall not accrue for the period after such Interest Payment Date.

*Limited Obligation*. The Bonds and the obligations of the Issuer under the Trust Agreement shall be limited obligations of the Issuer payable solely from and secured solely by General Revenues and any moneys in the Bond Payment Fund; and the Bonds and the obligations of the Issuer under the Trust Agreement shall not be a debt or liability of the State of Michigan or a general obligation of the Issuer. The pledge of and security interest in the General Revenues securing the Bonds and the Issuer's obligations under the Trust Agreement are on a parity basis with the pledge of and security interest in the General Revenues securing all Parity Bonds.

## ESTABLISHMENT AND USE OF FUNDS

*Bond Proceeds Fund*. Under the Trust Agreement, there is created and established on the books of the Issuer the Bond Proceeds Fund. Within the Bond Proceeds Fund there is established two separate accounts designated the "Series 2014A Bond Proceeds Account" and the "Series 2014B Bond Proceeds Account." The net proceeds of the Series 2014A Bonds and the Series 2014B Bonds shall be received by the Issuer and transferred or deposited by the Issuer on the date of the delivery thereof to the Series 2014A Bond Proceeds Account and the Series 2014B Bonds Proceeds Account, respectively. All moneys in the Bond Proceeds Fund shall be used for the purposes and disbursed as provided under the heading *FLOW AND USE OF FUNDS* below.

*Bond Payment Fund*. Under the Trust Agreement, there is created and established with the Trustee the Bond Payment Fund. Subject to any credit to which the Issuer may be entitled, there shall be deposited by the Issuer from General Revenues with the Trustee for deposit in the Bond Payment Fund the following:

(a) On each Interest Payment Date and each other date on which principal of or interest on the Bonds is due and payable, an amount equal to the amount of principal of and interest on the Bonds which is due and payable on that Interest Payment Date or other date (less in each case any funds then on deposit in the Bond Payment Fund for which a credit has not been previously taken).

(b) On or before the date any Bond is to be redeemed, the redemption price of all Bonds to be redeemed on such date, subject to a credit for any funds then on deposit in the Bond Payment Fund and available to pay the redemption price of such Bonds.

All moneys in the Bond Payment Fund shall be used for the purposes and disbursed as provided under the heading *FLOW AND USE OF FUNDS* below.

*Investment of Funds Held by the Trustee*. Moneys in the Bond Payment Fund shall be invested by the Trustee at the written direction of the Issuer in Permitted Investments, all of which shall mature, or which shall be subject to redemption by the holder thereof at the option of such holder not later than the respective dates when moneys are needed by the Trustee for the purposes of such Fund. All Permitted Investments shall be sold at the prevailing market price if and to the extent required for the purposes set forth in the Trust Agreement. The Trustee may make any and all such investments through its own investment department or that of its affiliates or subsidiaries, and may charge its ordinary and customary fees for such trades, including cash sweep account fees. Except as otherwise specifically provided in the Trust Agreement, all Permitted Investments shall be deemed a part of such Fund and all interest, profits and losses shall be credited or charged to such Fund. All Permitted Investments shall be valued at the lower of cost (excluding accrued interest) or market value.

*Liability of Issuer for Investments*. In the event that any investment directed to be made by the Issuer results in any loss such that the amounts in the Bond Payment Fund are less than required, the Issuer shall, from General Revenues, make up the deficiency in the Bond Payment Fund immediately upon receipt of notice of the deficiency from the Trustee.

## SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

*Security for the Bonds*. The Bonds and the Issuer's obligations under the Trust Agreement are not debts or general obligations of the State, nor general obligations of the Issuer, but are limited obligations of the Issuer payable solely from General Revenues and equally and ratably secured only by the following:

1. General Revenues and the Issuer's and the University's rights to receive General Revenues; and

2. All Investment Income.

As security for the payment of the principal of, premium, if any, and interest on the Bonds and the Issuer's obligations under the Trust Agreement, the Issuer, under the Trust Agreement, pledges and grants to the Trustee for the benefit of the Holders of the Bonds a security interest in all of the foregoing; and in order to assure this security the Issuer covenants and agrees in the Trust Agreement that the Holders of the Bonds shall have a first Lien on General Revenues, which Lien shall be of equal standing and priority with the pledge of General Revenues for Parity Bonds now outstanding or which may be hereafter issued. The Lien of the pledge of the General Revenues granted by the Trust Agreement shall be valid and binding from the date of issuance and delivery of the Bonds and all moneys or properties subject thereto which are thereafter received shall immediately be subject to the Lien of the pledge of the General Revenues without physical delivery or further act. The Lien of the pledge of the General

Revenues shall be valid and binding against all parties having claim in tort, contract or otherwise against the Issuer (except for the holders of any Parity Bonds) irrespective of whether such parties have notice of the Lien.

The lien of the pledge of the Investment Income granted by the Trust Agreement shall be valid and binding from the date of the issuance and delivery of the Bonds, and all moneys or property subject thereto which are hereafter received shall immediately be subject to the lien of the pledge of the Investment Income without physical delivery or further act. The lien of the pledge of the Investment Income shall be valid and binding against all parties having a claim in tort, contract or otherwise against the Issuer irrespective of whether such parties have notice of the lien.

*Additional Security for the Bonds*. As additional security for the payment of the principal of, premium, if any, and interest on the Bonds, the Issuer pledges and grants to the Trustee under the Trust Agreement, on behalf of the Holders of the Bonds, a security interest in all moneys in the Bond Payment Fund and in order to assure this security the Issuer covenants and agrees in the Trust Agreement that the Trustee, on behalf of the Holders of the Bonds, shall have a first lien on all moneys in the Bond Payment Fund. The lien of the pledge of the Bond Payment Fund granted by the Trust Agreement shall be valid and binding from the date of the issuance and delivery of the Bonds, and all moneys or property subject thereto which are thereafter received shall immediately be subject to the lien of the pledge of the Bond Payment Fund without physical delivery or further act. The lien of the pledge of the Bond Payment Fund shall be valid and binding against all parties having a claim in tort, contract or otherwise against the Issuer irrespective of whether such parties have notice of the lien.

*General Revenues as Source of Payment of Bonds*. On or before each Interest Payment Date and each other date on which principal of, premium, if any, or interest on the Bonds is due and payable, the Issuer shall pay to the Trustee for deposit in the Bond Payment Fund, from General Revenues, an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds which is due and payable on the Bonds on such Interest Payment Date or other date. If the Issuer fails to pay any such amount in full on the date required to be so paid by the Issuer, then the Issuer shall pay to the Trustee (for deposit in the Bond Payment Fund) and to the trustee or trustees, if any, for, or otherwise to the holders or obligees of, all other issues of Parity Bonds then outstanding (for deposit in the respective bond payment or similar funds for such Parity Bonds) all General Revenues thereafter received by the Issuer (which payments shall be made promptly upon receipt of such General Revenues) until all amounts payable by the Issuer in respect of debt service on all Parity Bonds have been paid in full; provided, however, that in paying General Revenues as aforesaid, the amount of General Revenues so paid in each Fiscal Year shall be shared among the respective issues of the Parity Bonds then outstanding pro rata, based upon the respective amounts of debt service payable on each such issue of the Parity Bonds during such Fiscal Year (without regard to the existence of any debt service reserve fund established for any issue of Parity Bonds). Subject to the above requirements, the Issuer shall have and retain the full right and ability to receive, collect, expend, invest, use or otherwise hold or dispose of General Revenues as the Issuer deems appropriate.

*Legally Available Funds as Source of Payment for the Bonds*. The Issuer reserves the right, but shall not be required, to use any Legally Available Funds for the purpose of paying principal of, premium, if any, and interest on the Bonds.

*Excluded Hospital Gross Revenues.*

(a) The Issuer may, at any time and from time to time, and without the consent of the Holders of any of the Outstanding Bonds, elect to exclude from the definition of "General Revenues," as set forth in the Trust Agreement, all or any portion of the Hospital Gross Revenues, subject to satisfaction of the following conditions:

(i) The Issuer shall file with the Trustee an Officer's Certificate (A) containing the election of the Issuer to exclude all or a portion of the Hospital Gross Revenues from General Revenues and, if less than all of the Hospital Gross Revenues are to be excluded from General Revenues, identifying the portion of Hospital Gross Revenues to be excluded by source, or by a specified amount or percentage of Hospital Gross Revenues, or by any similar measure as shall be determined by the Issuer, and (B) certifying that the total amount of General Revenues collected during the most recently completed Fiscal Year for which an audit has been completed, assuming that the Hospital Gross Revenues that the Issuer has elected to exclude from General Revenues were actually excluded from General Revenues at the beginning of such Fiscal Year, is not less than 100% of the highest Annual Debt Service requirements for such Fiscal Year or any subsequent Fiscal Year on the Outstanding Bonds and all other Parity Bonds; and

(ii) The Trustee shall have received an Opinion of Bond Counsel with respect to the proposed exclusion of Hospital Gross Revenues from General Revenues.

(b) Upon satisfaction of the conditions described in paragraph (a) above for the exclusion of all or any portion of Hospital Gross Revenues from the definition of General Revenues, such Hospital Gross Revenues shall constitute "Excluded Hospital Gross Revenues" for purposes of the Trust Agreement, and such Excluded Hospital Gross Revenues shall be immediately released from the Lien of the pledge of the General Revenues granted by the Trust Agreement, and neither the Trustee nor the Holders of any of the Bonds shall have any further lien on or security interest in, or any further claim respect to, such Excluded Hospital Gross Revenues.

(c) For purposes of paragraph (a) above, the term "Annual Debt Service" on the Bonds and any other Parity Bonds in any single Fiscal Year shall include scheduled principal and interest due in such Fiscal Year, but shall be determined with the following assumptions and adjustments:

(i) Balloon Indebtedness shall, at the election of the Issuer, be deemed to be indebtedness which is payable (without regard to tenders) over a thirty (30) year term from the date of its original incurrence, with level annual debt service, at a rate of interest equal to the Bond Index at the date of calculation, as specified in an Officer's Certificate;

(ii) Variable Rate Indebtedness shall, at the election of the Issuer, be deemed indebtedness which bears interest at a rate equal to the average rate during the 12 month period preceding the date of calculation, as specified in an Officer's Certificate, or if not outstanding for the preceding 12 month period, at a rate equal to the average of the SIFMA Municipal Index for the preceding 12 month period, as specified in an Officer's Certificate;

(iii) If all or any part of the Bonds or any other Parity Bonds bear interest at a variable rate, but which, when taken together with an interest rate swap or similar arrangement deemed related by the Issuer, bear for any specified period a fixed rate, such obligations together may, at the option of the Issuer, be treated during such period as fixed rate obligations. Similarly, if all or any part of the Bonds or any other Parity Bonds bear interest at a fixed rate, but which, when taken together with an interest rate swap or similar arrangement deemed related by the Issuer, bear for any specified period of time a variable rate, such obligations together may, at the option of the Issuer, be treated for such period of time as Variable Rate Indebtedness. In addition, interest rate cap or similar arrangements may be treated as establishing the maximum rate on Variable Rate Indebtedness. Finally, payments on interest rate swaps or similar arrangements due to be paid and received in any Fiscal Year or other 12 month period, and not already included in the calculation of Annual Debt Service as described in this paragraph (c), may, at the option of the Issuer, be netted against each other for purposes of calculating Annual Debt Service;

(iv) Principal payments due on commercial paper notes issued in anticipation of gifts that the Issuer reasonably expects to receive may, at the option of the Issuer, be excluded from the calculation of Annual Debt Service; and

(v) Non-scheduled termination or similar payments on interest rate swap and similar arrangements, payments due on optional redemptions, payments due on tenders of bonds for purchase or retirement (other than scheduled mandatory sinking fund payments), payments due as a result of acceleration following default and similar, non-scheduled payments which come due or may become due on the Bonds or any other Parity Bonds shall not be treated as debt service on the Bonds or other Parity Bonds for purposes of the calculation of Annual Debt Service.

*Transfer of Hospital Assets to Controlled Person.*

(a) If the Issuer shall transfer, sell or convey all or any portion of the assets of the Hospital to any Person that is controlled by the Issuer, and in connection with such transfer, sale or conveyance, the Issuer desires that the Hospital Gross Revenues derived from the operation of such Hospital assets continue to be included in the definition of General Revenues and, to the maximum extent permitted by applicable law, continue to be subject to the Lien of the pledge of the General Revenues granted by the Trust Agreement, then all of the following conditions shall be satisfied:

(i) Such controlled Person shall execute and deliver to the Trustee an appropriate instrument or instruments reasonably satisfactory to the Trustee, containing the agreement of such controlled Person (A) to become and remain subject, jointly and severally with the Issuer, to all provisions of the Trust Agreement pertaining to the Issuer, including all covenants and obligations of the Issuer under the Trust Agreement and (B) to assume, jointly and severally with the Issuer, the obligation of the Issuer to duly and punctually pay the principal of, premium, if any, and interest on all Outstanding Bonds and all other Parity Bonds; and

(ii) Such controlled Person shall take all possible actions under applicable law to grant to the Trustee for the benefit of the Holders of the Bonds, to the maximum extent permitted by applicable law, a continuing pledge of and perfected security interest in the Hospital Gross Revenues derived from the operation of such Hospital assets.

(b) If all of the conditions described in paragraph (a) above have been satisfied, then the Hospital assets transferred to such controlled Person shall be and remain part of the Hospital and the Hospital Gross Revenues derived from the operation of such Hospital assets shall continue to be included in the definition of General Revenues and shall continue, to the maximum extent permitted by applicable law, to be subject to the Lien of the pledge of the General Revenues granted by the Trust Agreement, subject to the right of the Issuer to subsequently exclude all or a portion of such Hospital Gross Revenues from the definition of General Revenues as described above under the caption *SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – Excluded Hospital Gross Revenues*.

## FLOW AND USE OF FUNDS

*Use of and Disbursements from the Bond Proceeds Fund.* The net proceeds of the Series 2014A Bonds shall be deposited in the Series 2014A Bond Proceeds Account of the Bond Proceeds Fund and used to pay the cost of the acquisition, construction, furnishing, and equipping of the Series 2014A Projects, including interest on the portion of the Series 2014A Bonds allocated to the Series 2014A Projects accruing prior to the completion of the Series 2014A Projects, or to reimburse the Issuer for previously incurred costs of the Series 2014A Projects, and to pay certain costs incurred in connection with the issuance of the Series 2014A Bonds. The net proceeds of the Series 2014B Bonds shall be deposited in the Series 2014B Bond Proceeds Account of the Bond Proceeds Fund and used to pay the cost of the acquisition, construction, furnishing, and equipping of the Series 2014B Project, including interest on the portion of the Series 2014B Bonds allocated to the Series 2014B Project accruing prior to the completion of the Series 2014B Project, or to reimburse the Issuer for previously incurred costs of the Series 2014B Project, and to pay certain costs incurred in connection with the issuance of the Series 2014B Bonds.

Subject to the Issuer's policies regarding approvals of capital projects, any Authorized Officer may execute a certificate of the Issuer to add to or delete components of the Series 2014A Projects or the Series 2014B Project, or change the scope or costs thereof.

The Issuer shall establish and maintain records with respect to the payments made from the Bond Proceeds Fund and such records shall be available for inspection during business hours by the Trustee. Any amount remaining in the Bond Proceeds Fund after payment of the costs set forth above shall be transferred to the Bond Payment Fund; provided, however, that no funds remaining in the Series 2014A Bond Proceeds Account of the Bond Proceeds Fund shall be used to pay principal of, premium, if any, or interest on the Series 2014B Bonds and no funds remaining in the Series 2014B Bond Proceeds Account of the Bond Proceeds Fund shall be used to pay principal of or interest on the Series 2014A Bonds. Moneys held for the credit of each Account of the Bond Proceeds Fund shall, as nearly as may be practicable, be continuously invested and reinvested by the Issuer in any investments legally available for University funds. All such investments shall be deemed a part of such Fund and all interest, profits and losses shall be credited and charged to such Fund.

*Use of and Disbursements from Bond Payment Fund.* Subject to certain provisions of the Trust Agreement in the event of the occurrence of an Event of Default, the Trustee shall use moneys in the Bond Payment Fund to pay principal of, premium, if any, and interest on the Bonds as the same become due. The Trustee may, acting through such broker or other agent satisfactory to the Trustee as the Issuer shall appoint, use moneys in the Bond Payment Fund (but only to the extent that such moneys exceed the amounts required to be deposited pursuant to the Trust Agreement) for the acquisition of Bonds in the open market at the written direction of the Issuer; provided, however, that unless a tender offer is made for all then outstanding Bonds, no Bonds shall be purchased at a price in excess of the redemption price of those Bonds on the next available redemption date. Notwithstanding the foregoing, the Trustee, at the written direction of the Issuer, may, acting through such broker or other agent satisfactory to the Trustee as the Issuer shall appoint, use moneys in the Bond Payment Fund which have been deposited for purposes of redeeming Bonds, for the acquisition of Bonds in satisfaction of such redemption requirements, provided that no Bonds shall be purchased at a price in excess of the redemption price applicable to such redemption requirements. Any amount remaining in the Bond Payment Fund after all Outstanding Bonds have been paid or provision made therefor under the Trust Agreement shall be returned to the Issuer.

## LIMITED RECOURSE

There shall be no recourse under any obligation, covenant or agreement contained in the Trust Agreement or any Bond against the State, or the Issuer or any member or officer of the Issuer, it being expressly understood and agreed that the Bonds and the Issuer's obligations under the Trust Agreement are secured by and payable only from General Revenues and moneys in the Bond Payment Fund.

## REMOVAL OF TRUSTEE

The Trustee shall be removed by the Issuer if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Issuer, and signed by the Holders of a majority in principal amount of the outstanding Bonds or their attorneys-in-fact duly authorized. The Issuer may remove the Trustee at any time, except during the existence of an Event of Default, for such cause as shall be determined in the sole discretion of the Issuer by filing with the Trustee an instrument to such effect signed by an Authorized Officer. Any such removal of the Trustee shall take effect upon the day that a successor Trustee shall have been appointed and shall have accepted such appointment as provided in the Trust Agreement.

## ADDITIONAL BONDS AND DEFEASANCE

*Issuance of Additional Parity Bonds*. The Issuer reserves the right to authorize by resolution, issue and deliver, without limitation, additional Parity Bonds, as fixed rate indebtedness, variable rate indebtedness, other loan, debt or guaranty obligations, interest rate swaps, hedges or similar arrangements for any lawful purpose, secured by a Lien on General Revenues on a parity basis with the Lien thereon securing the Bonds, and to authorize by resolution, issue and deliver such obligations secured by a subordinated Lien on General Revenues or any portion thereof.

*Defeasance*. If the Bonds shall have become due and payable in accordance with their terms or otherwise as provided in the Trust Agreement or are to be paid at their maturity or maturities or, if to be redeemed prior to maturity shall have been duly called for redemption or irrevocable instructions to call the Bonds for redemption shall have been given to the Trustee by the Issuer and the whole amount of the principal and the interest and the premium, if any, so due and payable upon all of the Bonds then Outstanding shall be paid or sufficient cash, or cash and Government Obligations, the principal of and the interest on which, when due and payable, will provide sufficient moneys therefor, shall be held by the Trustee or other escrow agent approved by the Trustee in trust for the benefit of the Bondholders for such purpose under the provisions of the Trust Agreement, and sufficient funds shall also have been provided for paying all other obligations payable under the Trust Agreement by the Issuer (including the payment of or provision for payment to the Trustee of all sums of money due or to become due according to the provisions thereof), then and in that case the right, title and interest of the Trustee under the Trust Agreement shall thereupon cease, terminate and become void and, on demand of the Issuer, the Trustee shall release the Trust Agreement and shall execute such documents to evidence such release as may be reasonably required by the Issuer, and the Trustee shall turn over to the Issuer all the remaining property held by it under the Trust Agreement, and all balances remaining in all other funds and accounts created by the Trust Agreement, other than money held for the redemption or payment of the Bonds. Otherwise, the Trust Agreement shall be, continue and remain in full force and effect. In the event Government Obligations shall be deposited with and held by the Trustee as hereinabove provided, applicable provisions of the Trust Agreement pertaining to the payment of the principal of, premium, if any, and interest on the Bonds, the transfer and exchange of Bonds, and the redemption of Bonds (including the provisions relating to the right to reduce scheduled redemption requirements for Bonds redeemed or purchased) shall be continued in force until such Bonds and other obligations have been fully paid.

Bonds or portions of Bonds for which there has been deposited in trust with the Trustee or any escrow agent acceptable to the Trustee, cash or Government Obligations the principal of and interest on which will provide sufficient funds to pay all principal of, premium, if any, and interest on said Bonds to maturity or earlier specified redemption date (notice of redemption having been duly given or irrevocable instructions to give such notice having been given to the Trustee), shall no longer be deemed outstanding under the Trust Agreement, and the Holders thereof shall have recourse solely against the funds so deposited in trust for the payment of principal of, premium, if any, and interest with respect thereto.

All moneys and Government Obligations held by the Trustee or other escrow agent shall be held in trust and applied to the payment, when due, of the obligations payable therewith; provided, however, that any moneys so held which are determined in a certificate filed by the Issuer with the Trustee and the escrow agent (if any) (together with such supporting letters or opinions of independent consultants, auditors or attorneys as the Trustee may reasonably require) to be excess funds not required to pay principal of, premium, if any, or interest on the Bonds shall, at the direction of the Issuer, be released from the escrow and paid to the Issuer.

## ADDITIONAL COVENANTS OF THE UNIVERSITY

*Audits and Records*. The Issuer shall keep and maintain accurate books and records relating to the collection of General Revenues and the allocation thereof, and the payments into the Bond Payment Fund, which said books and records shall be open for inspection by any Holder of the Bonds at any reasonable time. Said books and records may be part of the general audit of the University and shall be audited annually by a certified public accountant and a copy of said audit sent to the Trustee not later than six months after the end of each Fiscal Year.

*Performance of Covenants; Authority*. The Issuer shall faithfully perform all of its covenants, undertakings, provisions and agreements contained in the Trust Agreement and in any Bond executed and delivered thereunder and in all other proceedings of the University pertaining thereto. The Issuer is duly authorized under the Constitution and applicable laws of the State of Michigan to adopt the Resolution, to enter into the Trust Agreement, to issue the Bonds, to pledge General Revenues in the manner and to the extent set forth in the Trust Agreement; all action on its part relating to the execution and delivery of the Trust Agreement and the issuance, execution and delivery of any Bonds has been or will be duly and effectively taken prior to the delivery of such Bonds; and the Bonds in the hands of the Holders and owners thereof are and will be valid limited obligations of the Issuer enforceable against the Issuer in accordance with their terms, subject to bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights now existing or hereinafter enacted and by the application of general principles of equity, including those related to equitable subordination.

## EVENTS OF DEFAULT; ACTION BY THE TRUSTEE CONSEQUENT UPON AN EVENT OF DEFAULT

*Events of Default*. Any one or more of the following events shall be deemed an "Event of Default" under the Trust Agreement:

(a) Default in the due and punctual payment of any interest on any or all of the Bonds on any date when such interest is due and payable;

(b) Default in the due and punctual payment of any principal or premium, if any, of any Bond, whether at the stated maturity thereof, upon acceleration or by redemption;

(c) The Issuer shall default in the performance or observance of any other of the covenants, agreements or conditions on its part contained in the Trust Agreement (other than covenants otherwise specified above); provided, however, that: (i) no such default shall constitute an Event of Default unless it shall not have been cured within thirty (30) days following receipt of written notice thereof by the Issuer from the Trustee or the holders of twenty-five percent (25%) in principal amount of the Outstanding Bonds; (ii) that if the default is such that it cannot be corrected within such period, but can, in the judgment of the Trustee, be corrected without material adverse effect on the holders of the Bonds, it shall not constitute an Event of Default if corrective action is instituted by the Issuer during such period and diligently pursued until such default is corrected; and (iii) that if by reason of force majeure, the Issuer is unable in whole or in part to carry out any agreement on its part contained in the Trust Agreement, other than payment of principal of, premium, if any, or interest on the Bonds, the Issuer shall not be deemed in default during the continuance of such disability. The term "force majeure" includes the following: Acts of God, strikes, walk-outs or other employee disturbances, acts of public enemies, orders of any kind of the government of the United States of America, the state or states in which the Issuer is doing business, or any of their departments, agencies, political subdivisions or officials or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, wash-outs, droughts, civil disturbances, explosions, breakage or accidents to machinery, transmission pipes or canals, partial or entire failure of utilities, or similar acts or events other than financial not within the control of the Issuer;

(d) Failure to make any deposits to the Bond Payment Fund as required by the Trust Agreement.

*Remedies*. Upon the occurrence and continuation of an Event of Default, the Trustee may proceed to protect or enforce the rights of the Trustee and the Holders of the Bonds, either by mandamus to compel the Issuer to perform each and every covenant contained in the Trust Agreement, or by injunction to prevent the Issuer from taking any action in violation of said covenants.

The Issuer expressly authorizes the Trustee to bring any of the actions set forth above.

In addition, in the event that payment of principal of and interest on any Parity Bonds has been accelerated pursuant to the terms of such Parity Bonds upon a declaration of an event of default under such Parity Bonds, the Trustee may declare the principal of and interest on the Bonds to be immediately due and payable and such principal and interest shall thereupon become immediately due and payable.

*Waiver of Default*. If all defaults are cured, the Trustee may, and at the direction of the holders of twenty-five percent (25%) of the principal amount of the Bonds shall, waive an Event of Default and annul its consequences. No such waiver shall extend to or affect any subsequent Event of Default or shall impair any right consequent thereon.

*Holders' Rights to Proceed*. No holder of any Bond shall have any right to institute any suit, action, or proceedings for any remedy under the Trust Agreement or relating thereto unless (a) such holder previously shall have given to the Trustee written notice of such default and of the continuance thereof, (b) the holders of a majority in aggregate principal amount of Bonds outstanding shall have made written request upon the Trustee and shall have afforded the Trustee a reasonable opportunity either to exercise the powers granted in the Trust Agreement or to institute such action, suit or proceedings in its own name and (c) such holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby. Such notifications, request and offers of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the exercise by one or more Bondholders of the powers and trusts of the Trust Agreement for the benefit of the Bondholders and to any action or cause of action, of for any other remedy or relating thereto. It is further understood and intended that no one or more holders of Bonds shall have any right in any manner whatever, by taking any action, to affect, disturb, or prejudice the lien under the Trust Agreement or to enforce any rights under the Trust Agreement except in the manner therein provided, and that all proceedings shall be instituted and maintained in the manner therein provided and for the equal benefit of all holders of all Outstanding Bonds. Nothing contained in this paragraph shall be construed as granting to the holder of any Bond the right to bring any action or proceeding which the Trustee is not expressly authorized to bring; provided, however, if the holders of a majority in the aggregate principal amount of Bonds Outstanding shall have complied with all conditions prerequisite to the requiring of action on the part of the Trustee and the Trustee shall refuse to act, then one or more Bondholders may bring any action or actions as the Trustee might have instituted for and on behalf of the owners of all Outstanding Bonds. Nothing contained in the Trust Agreement shall impair the right of any Bondholder to payment of, or to enforce payment of, any amount payable by the Issuer under the Trust Agreement or under any Bond after the respective due dates of such payment or amount.

*Application of Moneys*. All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement shall be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities, advances and charges incurred or made by the Trustee and the creation of a reserve for anticipated fees, costs and expenses. The balance of such moneys, after providing for the foregoing shall be deposited by the Trustee in the Bond Payment Fund and be applied, subject to certain provisions of the Trust Agreement, as follows:

(a) Unless all principal of and interest on the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied to:

<u>First</u> - To the payment of interest due on the Bonds, in the order of due dates thereof; and

<u>Second</u> - To the payment of the unpaid principal on the Bonds, in the order of their due dates, with interest on such principal from the respective dates upon which it became due.

(b) If all principal of and interest on the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest or principal over any other installment of interest or principal or of any Bonds over any other Bonds.

(c) The remainder, if any, shall be paid to the Issuer.

## SUPPLEMENTS TO THE TRUST AGREEMENT

*Supplements Not Requiring Consent of Bondholders*. Any provision of the Trust Agreement may be amended at any time by the parties thereto, without the consent of the holders of the Bonds, for any one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Trust Agreement or in any supplemental agreement;

(b) To grant to or confer upon the Trustee for the benefit of the Bondholders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

(c) To accomplish, implement or give effect to any other action which is authorized or required by the Trust Agreement;

(d) To comply with the requirements of the Internal Revenue Code of 1986, as amended, applicable to the Bonds or any additional bonds;

(e) To satisfy the requirements of a national rating agency rating the Bonds in order to obtain, maintain or improve the rating on the Bonds;

(f) To comply with the requirements or procedures of DTC, as from time to time in effect, necessary to maintain the Bonds as Book Entry Bonds; or

(g) To make any other change which, in the judgment of the Trustee, is not to the material prejudice of Holders of the Bonds.

*Supplements With Approval of Bondholders*. Any provision of the Trust Agreement may be amended at any time by written agreement of the parties thereto, but, except as provided below, no such amendment made after the issuance of any Bonds shall become effective until approved in writing by the holders of fifty-one percent (51%) of the principal amount of Bonds then Outstanding, other than those in the possession of the Issuer or under its control; provided, however, no such amendment may (i) extend the maturity of the principal of or the interest on any Bond or (ii) reduce the principal amount of any Bond or the rate of interest thereon, or (iii) grant a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) reduce the aggregate principal amount of the Bonds required for consent to such supplemental or amendatory indenture unless approved by the holders of all Outstanding Bonds.

If at any time the Issuer shall request the Trustee to execute any supplement for any of the purposes set forth above, the Trustee shall cause notice of the proposed supplement to be mailed, postage prepaid to all owners of registered Bonds without coupons at their addresses as they appear on the registration books. The notice shall briefly set forth the nature of the proposed supplement and shall state that copies thereof are on file at the designated corporate trust office of the Trustee for inspection by any Bondholders. The Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail the notice required by this paragraph, and any such failure shall not affect the validity of such supplement when executed as provided above.

Whenever, at any time within one year after the date of the first mailing of such notice, the Issuer shall deliver to the Trustee an instrument or instruments in writing purporting to be executed by the holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds Outstanding, which instrument or instruments shall refer to the proposed supplement described in such notice and shall specifically consent to and approve the acceptance thereof in substantially the form of the copy thereof referred to in such notice; thereupon, but not otherwise, the Trustee may execute such supplement, without liability or responsibility to any holder of any Bond, whether or not such holder shall have consented thereto.

If the holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds outstanding at the time of the acceptance of such supplement shall have consented to and approved the acceptance thereof as provided in the Trust Agreement, no holder of any Bond shall have any right to object to the acceptance of said supplement, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the acceptance thereof or to enjoin or restrain the Trustee from executing the same or from taking any action pursuant to the provisions thereof.

Upon the execution of any supplement as set forth above, the Trust Agreement shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Trust Agreement of the Issuer, the Trustee and all holders of Bonds outstanding shall thereafter be determined, exercised and enforced under the Trust Agreement, subject in all respects to such modifications and amendments.

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# APPENDIX C

# FORMS OF BOND COUNSEL OPINIONS

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Form of Approving Opinion
Series 2014A Bonds

Regents of the University of Michigan
Ann Arbor, Michigan

We have acted as bond counsel to the Regents of the University of Michigan, a body corporate created by and existing under the Constitution of the State of Michigan (the "Issuer"), in connection with the issuance by the Issuer of its General Revenue Bonds, Series 2014A in the aggregate principal amount of $83,065,000 (the "Bonds"). In such capacity, we have examined the transcript of proceedings relating to the issuance of the Bonds and such other proceedings, certifications and documents, and such matters of law, as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to a resolution adopted by the Issuer on December 19, 2013 (the "Resolution") and a Trust Agreement, dated as of February 1, 2014 (the "Agreement"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), for the purpose of paying part of the cost of certain capital improvements of the Issuer and paying costs incidental to the issuance of the Bonds. Capitalized terms used herein and not defined have the meanings set forth in the Agreement.

The Bonds are dated as provided in the Agreement and are issuable only as fully registered Bonds in the denominations specified in the Agreement. The Bonds bear interest payable on the dates and at the rates, and mature on the dates, as provided in the Agreement. The Bonds are subject to redemption prior to maturity on the conditions, in the manner and at the times and prices specified in the Agreement.

The Bonds are payable solely from and secured by a pledge of General Revenues, as defined in the Agreement, from which the Issuer is required to pay into the Bond Payment Fund established under the Agreement for the retirement of the Bonds amounts sufficient to pay the principal of and interest on the Bonds as they become due and payable. The Bonds are also secured by a lien on the moneys and funds from time to time on deposit in the Bond Payment Fund. The pledge of General Revenues for the payment of the principal of and interest on the Bonds, certain outstanding obligations secured as to the General Revenues on a parity basis with the Bonds, and any additional obligations of equal standing issued under the conditions and limitations specified in the Agreement, constitutes a first lien and charge on General Revenues.

As to questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a constitutional body corporate established under the provisions of Article VIII, Section 5 of the Michigan Constitution of 1963 with full power to enter into the Agreement and issue the Bonds for the purposes set forth above.

2. The Resolution has been duly authorized and adopted by the Issuer and is in full force and effect, and the Agreement has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by, and enforceability against, the Trustee, constitutes the legal, valid and binding obligation of the Issuer, enforceable in accordance with its terms.

3. The Bonds have been duly authorized and executed and are valid and binding special obligations of the Issuer according to their tenor, payable from and secured by a lien on General Revenues, on a parity basis with the lien thereon securing certain outstanding obligations of the Issuer, and the funds on deposit in the Bond Payment Fund established under the Agreement, all as specified and described in the Agreement, and as hereinbefore described.

4. The interest on the Bonds (a) is excludable from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. It should be noted, however, that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Further, the Bonds and the interest thereon are exempt from all taxation by the State of Michigan or by any taxing authority within the State of Michigan, except inheritance and estate taxes and taxes on gains realized from the sale, payment or other disposition thereof. The opinions set forth in this paragraph are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal and State of Michigan income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The Issuer has covenanted in the Agreement to comply with all such requirements within its control.

Except as stated in paragraph 4 above, we express no opinion regarding any other federal or state tax consequences arising with respect to the Bonds and the interest thereon.

The foregoing opinions are qualified to the extent that the enforceability of the rights and remedies of the Trustee and the holders of the Bonds set forth in the Agreement and the Bonds may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those related to equitable subordination.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

Form of Approving Opinion
Series 2014B Bonds (Taxable)

Regents of the University of Michigan
Ann Arbor, Michigan

We have acted as bond counsel to the Regents of the University of Michigan, a body corporate created by and existing under the Constitution of the State of Michigan (the "Issuer"), in connection with the issuance by the Issuer of its General Revenue Bonds, Series 2014B (Taxable) in the aggregate principal amount of $9,220,000 (the "Bonds"). In such capacity, we have examined the transcript of proceedings relating to the issuance of the Bonds and such other proceedings, certifications and documents, and such matters of law, as we have deemed necessary to render this opinion.

The Bonds are issued pursuant to a resolution adopted by the Issuer on December 19, 2013 (the "Resolution") and a Trust Agreement, dated as of February 1, 2014 (the "Agreement"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), for the purpose of paying part of the cost of certain capital improvements of the Issuer and paying costs incidental to the issuance of the Bonds. Capitalized terms used herein and not defined have the meanings set forth in the Agreement.

The Bonds are dated as provided in the Agreement and are issuable only as fully registered Bonds in the denominations specified in the Agreement. The Bonds bear interest payable on the dates and at the rates, and mature on the dates, as provided in the Agreement. The Bonds are subject to redemption prior to maturity on the conditions, in the manner and at the times and prices specified in the Agreement.

The Bonds are payable solely from and secured by a pledge of General Revenues, as defined in the Agreement, from which the Issuer is required to pay into the Bond Payment Fund established under the Agreement for the retirement of the Bonds amounts sufficient to pay the principal of and interest on the Bonds as they become due and payable. The Bonds are also secured by a lien on the moneys and funds from time to time on deposit in the Bond Payment Fund. The pledge of General Revenues for the payment of the principal of and interest on the Bonds, certain outstanding obligations secured as to the General Revenues on a parity basis with the Bonds, and any additional obligations of equal standing issued under the conditions and limitations specified in the Agreement, constitutes a first lien and charge on General Revenues.

As to questions of fact material to our opinion, we have relied on the certified proceedings and other certifications of public officials and others furnished to us.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Issuer is a constitutional body corporate established under the provisions of Article VIII, Section 5 of the Michigan Constitution of 1963 with full power to enter into the Agreement and issue the Bonds for the purposes set forth above.

2. The Resolution has been duly authorized and adopted by the Issuer and is in full force and effect, and the Agreement has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by, and enforceability against, the Trustee, constitutes the legal, valid and binding obligation of the Issuer, enforceable in accordance with its terms.

3. The Bonds have been duly authorized and executed and are valid and binding special obligations of the Issuer according to their tenor, payable from and secured by a lien on General Revenues, on a parity basis with the lien thereon securing certain outstanding obligations of the Issuer, and the funds on deposit in the Bond Payment Fund established under the Agreement, all as specified and described in the Agreement, and as hereinbefore described.

4. The interest on the Bonds is not excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.

Except as stated in paragraph 4 above, we express no opinion regarding any other federal tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax opinions herein were not intended to be used, and cannot be used, for the purpose of avoiding taxpayer penalties. These opinions were written to support the promotion or marketing of the Bonds.

We express no opinion regarding the tax treatment of the interest on the Bonds under the laws of the State of Michigan.

The foregoing opinions are qualified to the extent that the enforceability of the rights and remedies of the Trustee and the holders of the Bonds set forth in the Agreement and the Bonds may be affected by bankruptcy, insolvency, fraudulent conveyance or other laws affecting creditors' rights generally, now existing or hereafter enacted, and by the application of general principles of equity, including those related to equitable subordination.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

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# APPENDIX D

# FORM OF DISCLOSURE UNDERTAKING

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## DISCLOSURE UNDERTAKING

In connection with the issuance and delivery of the $83,065,000 Regents of the University of Michigan General Revenue Bonds, Series 2014A and $9,220,000 Regents of the University of Michigan General Revenue Bonds, Series 2014B (Taxable) (collectively, the "Bonds") authorized under a resolution adopted by the Regents of the University of Michigan (the "Issuer"), and a Trust Agreement, dated as of February 1, 2014 (the "Trust Agreement"), between the Issuer and U.S. Bank National Association, as trustee, and for the benefit of the holders and beneficial owners of the Bonds, the Issuer hereby undertakes and agrees as follows:

(a) The following capitalized terms used herein shall have the following meanings:

"EMMA" means the Electronic Municipal Market Access system of the MSRB, or such other system, internet web site, or repository hereafter prescribed by the MSRB for the submission of electronic filings pursuant to the Rule.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Rule" means Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended, as the same may be amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

(b) The Issuer hereby agrees, in accordance with the provisions of the Rule, to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the following annual financial information commencing with the fiscal year ending June 30, 2014.

(1) Updates of the following tables of financial information and operating data included in the Official Statement of the Issuer relating to the Bonds:

| | Page |
|---|---|
| General Revenues | 11 |
| Total Enrollment | 21 |
| Student Enrollment | 21 |
| Student Admissions | 21 |
| Tuition and Fees | 22 |
| Student Financial Aid | 26 |
| The University of Michigan Hospitals and Health Centers (UMHHC) – Statement of Revenues, Expenses and Changes in Net Assets | 28 |
| UMHCC – Summary of Patient Activity Statistics | 28 |
| The University Endowment Funds | 30 |

provided, however, that the updating information for the specified tables may be provided in such format as the Issuer deems appropriate, and provided further that, if any of the updates referred to above no longer can be provided because the operations to which they relate have been materially changed or discontinued, a statement to that effect, provided by the Issuer to the MSRB through EMMA, along with any other annual financial information or audited financial statements required to be provided under this Disclosure Undertaking, shall satisfy this Disclosure Undertaking. To the extent available, the Issuer shall cause to be filed along with the other annual financial information or audited financial statements operating data similar to that which can no longer be provided.

(2) Financial statements pertaining to the Issuer prepared in conformity with generally accepted accounting principles by the Issuer and audited by an individual or firm of independent certified public accountants ("Audited Financial Statements"); *provided, however,* that the Issuer may (without amending this Disclosure Undertaking) from time to time, in order to comply with federal or State legal requirements, modify the basis upon which its financial statements are prepared. Notice of any such modification shall be provided to the MSRB through EMMA, and shall include a reference to the specific federal or State law or regulation describing such accounting basis.

Such financial information and operating data described above are expected to be provided directly by the Issuer or by specific reference to documents available to the public through EMMA or filed with the SEC.

(c) Such financial information and operating data described in (b)(1) above and the Audited Financial Statements will each be available on or before the 180th day after the end of the fiscal year of the Issuer; provided, however, that if the Audited Financial Statements are not available by the 180th day after the end of the fiscal year, they shall be provided when available, but in any event within one year of the close of the fiscal year, and unaudited financial statements shall be filed in place of the Audited Financial Statements by the 180th day after the end of the fiscal year. If the Issuer changes its fiscal year, the Issuer shall send, or cause to be sent, notice of such change to the MSRB through EMMA.

(d) The Issuer agrees to provide or cause to be provided to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events listed in (b)(5)(i)(C) of the Rule with respect to the Bonds:

(1) principal and interest payment delinquencies;

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

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

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

(7) modifications to rights of holders of the Bonds, if material;

(8) bond calls, if material, and tender offers;

(9) defeasances;

(10) release, substitution, or sale of property securing repayment of the Bonds, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar event of the Issuer, which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer;

(13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or

(14) appointment of a successor or additional trustee or the change of name of a trustee, if material.

(e) The Issuer covenants that its determinations of materiality for purposes of (d) above will be made in conformance with federal securities laws.

(f) The Issuer agrees to provide or cause to be provided, in a timely manner, to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, notice of a failure by the Issuer to provide the annual financial information with respect to the Issuer described in subsection (b) above on or prior to the dates set forth in subsection (c) above.

(g) The Issuer reserves the right to terminate its obligation to provide annual financial information and notices of material events, as set forth above, if and when the Issuer no longer remains an obligated person with respect to the Bonds within the meaning of the Rule, including upon legal defeasance of all the Bonds.

(h) The Issuer agrees that this Disclosure Undertaking is intended to be for the benefit of the holders of the Bonds, including all beneficial owners of the Bonds, and shall be enforceable by any holder or beneficial owner of the Bonds; provided that, the right to enforce the provisions of this Disclosure Undertaking shall be limited to a right to obtain specific enforcement of the Issuer's obligations hereunder and any failure by the Issuer to comply with the provisions of this Disclosure Undertaking shall not constitute a default or an event of default with respect to the Bonds or under the Trust Agreement; and provided further, that, except as otherwise prohibited by law, the right of Bondholders to challenge the adequacy of any information supplied pursuant to this Disclosure Undertaking shall be limited as provided in Section 1004 of the Trust Agreement. For purposes of this Disclosure Undertaking, "beneficial owner" means any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries).

(i) The provisions of this Undertaking, including but not limited to the provisions relating to the accounting principles pursuant to which the Issuer's financial statements are prepared, may be amended as deemed appropriate by an Authorized Officer of the Issuer; provided, however, that any such amendment must be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretations thereof made from time to time by the SEC, which, to the extent applicable, are incorporated herein by reference. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the University or the type of activities conducted thereby, (b) this Disclosure Undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Issuer (such as independent legal counsel), but such interpretations may be changed in the future.

(j) If a change is made to the basis on which financial statements are prepared, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

(k) All terms not defined herein which are defined in the Trust Agreement shall have the meanings herein assigned to them in the Trust Agreement.

(l) All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

(m) Any filing under this Disclosure Undertaking shall be made by electronically transmitting such filing to the MSRB through EMMA. As of the date of this Disclosure Undertaking, EMMA's disclosure service for the filing of disclosure documents is accessible at http://www.emma.msrb.org.

Dated: February 26, 2014

REGENTS OF THE UNIVERSITY OF MICHIGAN

By ________________________________________

Timothy P. Slottow
Its Executive Vice President and
Chief Financial Officer

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REGENTS OF THE UNIVERSITY OF MICHIGAN • General Revenue Bonds, Series 2014A (Tax-Exempt) and Series 2014B (Taxable)