NEW ISSUE
BOOK-ENTRY-ONLY

RATINGS
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 Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (iii) 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. See "TAX MATTERS" herein and Appendix C hereto.

$53,510,000
REGENTS OF THE UNIVERSITY OF MICHIGAN
General Revenue Bonds, Series 2013A

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

The General Revenue Bonds, Series 2013A (the "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 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, 2013.

The Bonds are being issued pursuant to a Trust Agreement, dated as of March 1, 2013 (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 (a) paying a portion of the costs of certain capital projects of the Issuer, (b) refunding certain outstanding indebtedness of the Issuer and (c) paying costs incidental to the issuance of the Bonds and the refunding.

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 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. It is expected that the Bonds in definitive form will be available for delivery through DTC on or about March 21, 2013.

BofA Merrill Lynch

The date of this Official Statement is March 12, 2013

REGENTS OF THE UNIVERSITY OF MICHIGAN

$53,510,000
General Revenue Bonds, Series 2013A

Due April 1	Principal Amount	Interest Rate	Price	CUSIP† (914455)
2014	$1,815,000	2.00%	101.847%	MD9
2015	1,985,000	4.00	107.389	ME7
2016	1,890,000	5.00	113.602	MF4
2017	1,435,000	5.00	117.396	MG2
2018	1,410,000	5.00	120.109	MH0
2019	1,400,000	5.00	122.032	MJ6
2020	1,395,000	5.00	123.562	MK3
2021	1,400,000	5.00	124.835	ML1
2022	1,410,000	5.00	125.699	MM9
2023	1,540,000	4.00	117.197	MN7
2024	1,815,000	2.50	101.781*	MP2
2025	7,780,000	3.00	103.420*	MQ0
2026	8,445,000	2.75	99.348	MR8
2027	8,705,000	3.00	100.430*	MS6
2028	9,180,000	3.00	99.042	MT4
2029	1,905,000	4.00	109.511*	MU1

*Priced to the April 1, 2023 first call date.

† CUSIP is a registered trademark of the American Bankers Association.

REGENTS OF THE UNIVERSITY OF MICHIGAN
General Revenue Bonds, Series 2013A

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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 Standard & Poor's. 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

$53,510,000
REGENTS OF THE UNIVERSITY OF MICHIGAN
General Revenue Bonds, Series 2013A

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 $53,510,000 General Revenue Bonds, Series 2013A (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 November 15, 2012 (the "Resolution"), and a Trust Agreement, dated as of March 1, 2013 (the "Trust Agreement"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), for the purpose of (a) paying a portion of the cost of certain capital projects of the Issuer, (b) refunding certain outstanding indebtedness of the Issuer and (c) paying costs incidental to the issuance of the Bonds and the refunding. See "THE PROJECTS" and "PLAN OF REFUNDING" 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 Bonds will be issued in the principal amount of $53,510,000, 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, 2013 (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.

Redemption Provisions

Optional Redemption

The Bonds maturing on or after April 1, 2024 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, 2023, at a redemption price equal to one hundred percent (100%) of the principal amount of each Bond or portion thereof to be redeemed, plus accrued interest to the redemption date.

Selection of Bonds to be Redeemed

If fewer than all of the Bonds shall be called for redemption, the Issuer shall designate the maturities from which the Bonds are to be redeemed. Within the same 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 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, 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 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 and interest 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 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, 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 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 and interest 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”) and $100,970,000 General Revenue Bonds, Series 2012F (the “Series 2012F 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 and the Series 2012E 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, 2012, the aggregate outstanding principal amount of the Prior Bonds was $1,741,230,000, and the aggregate outstanding principal amount of the CP Notes was $97,892,000.

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, 2012 was $264,265,000. 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 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 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.

Pro forma General Revenues of the Issuer for the Fiscal Years ended June 30, 2010, 2011, and 2012, assuming the combination of General Revenues and Hospital Gross Revenues as described above was effective in each such Fiscal Year, are as follows:

Pro Forma General Revenues
Fiscal Year Ended June 30
(in thousands)

	2010	2011	2012
Student tuition and fees*	$ 1,097,450	$ 1,177,897	$ 1,269,703
Unrestricted sales and services of educational departments	137,268	122,819	127,067
Unrestricted revenues of auxiliary enterprises:			
Hospital Gross Revenues	1,825,008	1,897,969	2,046,315
Other patient care revenues**	522,208	551,394	591,841
Student residence fees***	103,166	108,444	113,155
Other auxiliary revenues	143,666	160,727	168,204
Indirect cost recoveries	228,762	251,170	249,816
Student loan interest earned	940	723	698
Unrestricted private gifts	906	878	1,460
Unrestricted income from investments****	323,938	609,006	115,774
Total General Revenues	**$ 4,383,312**	**$ 4,881,027**	**$ 4,684,033**

* Before allowances for scholarships of $233,598 in 2010 and $262,181 in 2011 and $271,276 in 2012.

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

*** Before allowances for scholarships of $17,441,000 in 2010 and $18,212,000 in 2011 and $19,021,000 in 2012.

**** 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 on 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)]
2013				$ 111,177,726	$ 111,177,726
2014	$ 1,815,000	$ 1,868,564	$ 3,683,564	122,847,316	126,530,880
2015	1,985,000	1,781,763	3,766,763	122,049,896	125,816,659
2016	1,890,000	1,702,363	3,592,363	116,277,040	119,869,403
2017	1,435,000	1,607,863	3,042,863	179,212,721	182,255,584
2018	1,410,000	1,536,113	2,946,113	106,585,043	109,531,155
2019	1,400,000	1,465,613	2,865,613	105,302,967	108,168,580
2020	1,395,000	1,395,613	2,790,613	104,579,490	107,370,102
2021	1,400,000	1,325,863	2,725,863	105,339,381	108,065,244
2022	1,410,000	1,255,863	2,665,863	105,465,967	108,131,830
2023	1,540,000	1,185,363	2,725,363	104,237,719	106,963,082
2024	1,815,000	1,123,763	2,938,763	105,026,847	107,965,610
2025	7,780,000	1,078,388	8,858,388	98,003,231	106,861,619
2026	8,445,000	844,988	9,289,988	94,174,990	103,464,978
2027	8,705,000	612,750	9,317,750	97,223,805	106,541,555
2028	9,180,000	351,600	9,531,600	97,134,774	106,666,374
2029	1,905,000	76,200	1,981,200	81,357,151	83,338,351
2030				87,641,854	87,641,854
2031				89,989,700	89,989,700
2032				90,264,907	90,264,907
2033				84,989,669	84,989,669
2034				84,385,162	84,385,162
2035				84,539,800	84,539,800
2036				84,221,467	84,221,467
2037				75,632,822	75,632,822
2038				74,017,018	74,017,018
2039				52,323,594	52,323,594
2040				38,465,229	38,465,229
2041				28,750,623	28,750,623
2042				15,627,573	15,627,573
2043				4,289,950	4,289,950

(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 Bonds, together with other available funds of the Issuer, include: (i) East Quadrangle Renovation; (ii) The University of Michigan Hospitals and Health Centers ("UMHHC")-University Hospital Accelerator Project; and (iii) various other capital projects of or for the benefit of the University.

East Quadrangle Renovation

Originally constructed in 1940 with additions in 1948 and 1969, East Quadrangle is an approximately 300,000-gross-square-foot residence hall housing approximately 860 students and the Residential College. Consistent with the overall Residential Life Initiatives presented to the Board of Regents in September 2004, this project involves a deep renovation of East Quadrangle. The renovation will update infrastructure, including: new plumbing, heating, cooling, ventilation, fire detection and suppression systems; wired and wireless high-speed network access; renovated bath facilities; and accessibility improvements. New and reorganized spaces within the facility will revitalize the old residence hall and create much-needed spaces for academically-related facilities, as well as improved dining facilities. Since its inception in 1967, the Residential College has occupied spaces within East Quadrangle not originally designed for academic use, with offices and administrative functions housed in former bedrooms and most classrooms located in the basement. This project will renovate the Residential College to current academic standards.

UMHHC-University Hospital Accelerator Project

The Department of Radiation Oncology will replace one EX1 linear accelerator, the primary technology used to irradiate cancer patients. The new equipment will upgrade technology and prevent lost cases due to maintenance on the existing accelerator. The project includes renovation to the rooms occupying the equipment to facilitate installation.

PLAN OF REFUNDING

The Issuer will use a portion of the proceeds of the Bonds, together with other available funds, to refund $26,200,000 of the Issuer's Commercial Paper Notes, Series E and $3,255,000 of the Issuer's Commercial Paper Notes, Series I (the portions of the Commercial Paper Notes being refunded with the proceeds of the Bonds are collectively referred to herein as the "Refunded Notes"). Proceeds of the Refunded Notes were used to provide interim financing for certain capital projects of the Issuer and to refund prior indebtedness of the Issuer. Proceeds of the Bonds in the aggregate amount of $29,455,000 will be deposited with the Issuer and used to pay a portion of the maturing principal of and interest on the Refunded Notes on the respective maturity dates. The Refunded Notes will be paid within 90 days of the date of delivery of the Bonds. The Refunded Notes will not be defeased until the respective payment dates.

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, to pay a portion of the costs of refunding the Refunded Notes, and to pay certain expenses incurred in connection with the issuance of the Bonds and the refunding, as set forth below.

Sources of Funds	
Principal Amount of the Bonds	$ 53,510,000
Plus Net Original Issue Premium	2,956,471
Estimated Investment Earnings	1,665
Total Sources	$ 56,468,136
Uses of Funds	
Cost of Refunding the Refunded Notes	$ 29,455,000
Cost of the Projects to be Funded from Proceeds of the Bonds	26,408,136
Costs of Issuance of the Bonds (including Underwriter's discount)	605,000
Total Uses	$ 56,468,136

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 2012 to an enrollment of 60,798 students in the various undergraduate, graduate and professional divisions. For the academic year ending June 30, 2012, the University awarded 8,748 undergraduate, 5,846 graduate, and 753 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; 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 School of Education. 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 461 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 is in her eleventh year as president of The University of Michigan. She is also a professor of biological chemistry in the U-M Medical School and professor of chemistry in the

College of Literature, Science, and the Arts. Dr. Coleman was president of the University of Iowa for seven years before becoming Michigan's 13th president on August 1, 2002.

Facilities - Ann Arbor Campus

Academic and Administrative Facilities. For fiscal year 2012, The University of Michigan had approximately 573 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 3,244 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, $67 million of the facility was placed in service, leaving $47 million as property classified as held for future use at June 30, 2012. The remaining portion of the facility, especially laboratories, has longer activation timelines but will be the focus in 2013 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 $523 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 281 capital projects across campus, an investment of more than $498 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 first phase of the Law School project completed in fall of 2011 includes a new academic building located south of Monroe Street, an addition between Hutchins Hall and the William W. Cook Legal Research Library for a new Law School commons, and renovations within both Hutchins Hall and the Cook Library. The new academic building is approximately 100,000 gross square feet that houses classrooms, multi-purpose spaces, clinic work spaces, and offices for Law School faculty and administrators. The Law School commons project of approximately 16,000 gross square feet provides needed student study, interaction, and support spaces. Additionally, the project includes life safety upgrades to Hutchins Hall and the Cook Library and the addition of an electrical substation and chilled water plant. A second phase of the project is renovating 30,000 square feet of vacated space in Hutchins Hall and the Cook Library.

The Lawyers' Club Building and John P. Cook Building Renovation project will include the renovation of the dormitory areas, approximately 92,000 gross square feet of space, and will address 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 will be added, overall energy performance is targeted to exceed national energy efficiency standards by more than 30 percent. The renovation will preserve the historic exterior of the buildings, and the existing "townhouse-style" entries to resident rooms will be replaced with an interior connecting corridor within each building that will increase 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 will include updating key infrastructure items integral with the dormitory wing, including new fire detection and suppression systems, and tuck-pointing of exterior masonry surfaces.

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 number upwards of 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 is responsible for enterprise administrative information systems, the centralized academic computing environment, core IT products and services (e.g., email, file storage, web hosting, software licensing), telephone, wireless, data networks, and campus computing sites. Medical Center Information Technology and Medical School Information Systems are responsible for maintaining the information technology of the University’s Health System, 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. As of fall term 2012, almost 6,000 new course sites have been established in CTools (with roughly 66,000 total course sites in the system), allowing for 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 provides both family and graduate apartments and single student housing. Family and graduate housing consists of four apartment complexes, containing approximately 1,100 units that had a 7 percent vacancy rate during the 2011-2012 fiscal year. Single student housing is provided in seventeen residence halls and one apartment complex containing a combined total of approximately 10,000 beds. Dining facilities in seven centrally located residence halls are able to provide food service for all single student housing. During the 2011-2012 academic year the vacancy rate was 1 percent for single student housing.

The Residential Life Initiatives (RLI) is a planned approach for the renewal, revitalization, and modernization of campus residential facilities presently under development. Following an extensive study of campus housing and dining at Michigan and peer institutions, recommendations called for: (i) Construction of the North Quad Residential and Academic Complex that combines a new residence hall in the range of 450 beds, with suite style configuration, and an academic building on the site of the Frieze Building; (ii) renovation of architecturally significant buildings, Alice Crocker Lloyd, Couzens, East Quadrangle, Mosher-Jordan and Stockwell; (iii) construction of a new Hill Dining Center that offers “marketplace” seating and café-style services and renovation of existing facilities to meet student needs for quality, variety and extended hours; (iv) continuation of life safety initiatives and information technology upgrades in all residence halls. The RLI is expected to be funded primarily from University resources and General Revenue obligations.

New academic space in the North Quad Complex allows a close link between students’ academic and residential experiences. This is an innovative mixed use environment for all students, not just those that live in the residence hall. Shared spaces can be used by faculty and students, together and individually, for creative and scholarly projects. Shared spaces could include meeting rooms, production facilities, studios, classrooms, seminar rooms or a small auditorium. These shared spaces complement the private spaces for residential areas and for faculty offices.

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 45,874 as of November 2012. Members of the University’s faculty totaled 6,764 and consisted of 1,763 professors, 919 associate professors, 905 assistant professors and instructors, 1,426 lecturers, and 1,751 supplemental faculty members. Of the total faculty, 3,503 staff held tenure or tenure-track appointments.

Eight unions are presently recognized at The University of Michigan, covering approximately 12,674 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 the question of 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 an appeal is pending before the Michigan Supreme Court. Litigation seeking to have the amendment declared unconstitutional has been filed in federal court. No prediction can be made as to the ultimate outcome of either the state or federal litigation.

Bargaining Unit	**Contract Expiring**
American Federation of State, County and Municipal Employees	July 25, 2013
Graduate Employees Organization - American Federation of Teachers	March 1, 2014
International Union of Operating Engineers	November 23, 2013
Lecturer's Employees Organization	April 20, 2013
Michigan Nurses Association and University of Michigan Professional Nurses Association	June 30, 2014
Police Officers Association of Michigan	December 12, 2013
University of Michigan House Officers Association	June 30, 2014
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 2012, approximately 29 percent of Ann Arbor campus undergraduate students resided in the United States but outside of Michigan; another 6 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
2008	39,534	8,569	7,260	55,363
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

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
2008	38,927	16,436	55,363	49,410	1,446,985
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

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
2008	29,814	12,567	42.2%	5,783	46.0%	19.4%
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%

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 2012, the top quarter of first year students had an average 3.90 high school grade point average.

The University expects that applications will again be higher for fall 2013. Typically, institutions participating in the Common Application process see large increases for the first two years of participation but more modest gains thereafter. For fall 2013, the University's third year of participation in the Common Application process, 49,083 applications were created as of February 18, 2013, a 10.2% increase over the comparable period for fall 2012. Of those, 45,946 are freshman applications (not transfer). The University set its freshmen target for fall 2013 at 5,980, the same as that of fall 2012. The University communicated its first round of admissions decisions prior to the holiday break in December 2012.

Student Tuition and Fees

For the 2012-13 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)	$ 12,800	$ 38,928
Undergraduate (55 or more credit hours)	14,450	41,676
Graduate	19,240	38,882
Business Administration	50,000	55,000
Law	48,012	51,010
Dentistry	32,728	51,232
Medicine	29,352	46,944

The cost of room and board to students for a two-person room in the 2012-13 academic year is $9,752 in the Ann Arbor campus. Students in the Ann Arbor campus are currently charged an additional $914 per academic year ($720 of which is included in the table above), mainly for Student Health Services, infrastructure maintenance, and registration.

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 medical activities.

The table on the next page presents the Consolidated Statement of Revenues, Expenses, and Changes in Net Assets for fiscal years ended June 30, 2010, 2011 and 2012.

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

	2010	2011	2012
Operating Revenues			
Student tuition and fees	$ 1,097,450	$ 1,177,897	$ 1,269,703
Less: scholarship allowances	233,598	262,181	271,276
Net student tuition and fees	863,852	915,716	998,427
Federal grants and contracts	844,026	930,436	901,764
State and local grants and contracts	6,199	4,464	4,154
Nongovernmental sponsored programs	140,087	138,007	139,840
Sales and services of educational departments	139,992	124,235	127,473
Auxiliary enterprises:			
Patient care revenues (net of provision for bad debts of $105,618 in 2012, $79,466 in 2011, and $78,513 in 2010)	2,310,770	2,411,131	2,601,803
Student residence fees (net allowances of $19,021 in 2012, $18,212 in 2011, and $17,441 in 2010)	85,725	90,232	94,134
Other revenues	143,666	160,727	168,204
Student loan interest income and fees	2,758	2,818	2,772
Total Operating Revenues	**4,537,075**	**4,777,766**	**5,038,571**
Operating Expenses			
Compensation and benefits	3,529,271	3,633,765	3,804,225
Supplies and services	1,215,684	1,299,651	1,473,665
Depreciation	360,089	390,071	443,132
Scholarships and fellowships	113,753	114,316	121,040
Total Operating Expenses	**5,218,797**	**5,437,803**	**5,842,062**
Operating loss	(681,722)	(660,037)	(803,491)
Nonoperating Revenues (Expenses)			
State educational appropriations	362,147	361,879	307,582
State fiscal stabilization funds	10,136		
Federal Pell grants	39,905	46,669	45,288
Private gifts for other than capital and endowment purposes	105,167	127,751	131,602
Net investment income	796,399	1,632,968	68,650
Interest expense	(30,018)	(33,094)	(45,096)
Build America Bonds subsidy	3,303	7,119	8,258
Total Nonoperating (Expenses) Revenues, Net	**1,287,039**	**2,143,292**	**516,284**
Income (loss) before other revenues (expenses)	605,317	1,483,255	(287,207)
Other Revenues (Expenses)			
State capital appropriations	2,002	843	100
Capital gifts and grants	29,143	24,907	51,934
Private gifts for permanent endowment purposes	59,595	57,451	55,742
Other	2,294	(5,182)	8,366
Total Other Revenues, Net	**93,034**	**78,019**	**116,142**
Increase (decrease) in net assets	698,351	1,561,274	(171,065)
Net Assets, Beginning of Year	8,664,637	9,362,988	10,924,262
Net Assets, End of Year	**$ 9,362,988**	**$ 10,924,262**	**$ 10,753,197**

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 13.2 percent in 2012. Durable goods manufacturing still represents a sizable portion of the State's economy and in this sector especially, unemployment in the State remains high.

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 the 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.

For 2012-2013, the Legislature enacted a 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 performance metrics include the number of undergraduate degrees in critical areas. The University initial appropriations for 2012-2013 were enacted at $315.9 million, including $8.3 million from the incentives. For 2013-2014, the Governor has preliminarily proposed a flat budget for higher education.

Significant changes were adopted by the State to restructure the state budget and revenues over the past years. 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. Should further appropriation cuts (or even increases insufficient to cover necessary cost increases) be necessary, the University is well positioned to maintain its excellence even in the face of additional cuts from the State.

At the State's Revenue Estimating Conference held on January 11, 2013, the consensus revenue estimates for 2012-2013 reflect decreases of $177.7 million in the General Fund revenues and $41.7 million in the School Aid Fund revenues from the May 2012 estimate. For 2013-2014, the consensus estimates reflect a slight increase in the General Fund revenues and a $38.9 million decrease in the School Aid Fund revenues from the May 2012 estimate. The reductions in revenues primarily reflect the impact of replacing the Michigan Business Tax with a corporate income tax that generates less revenue.

Signs of an improving economy are encouraging but the unemployment rate remains higher than the national average. While there do not appear to be signs of further budget cuts, the University is monitoring 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, 2012. 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)

	2010	2011	2012
Grants, Scholarships & Fellowships:*			
University/State (Primarily University)	$188,281	$218,582	$235,348
Federal	76,319	83,661	79,369
Other	100,192	92,466	96,620
Total Grants, Scholarships & Fellowships*	364,792	394,709	411,337
Loans Issued:**			
Loans Managed by the University:			
Federal	6,601	8,316	12,260
University	4,404	3,626	2,497
Total Loans Managed by the University	11,005	11,942	14,757
Federal Direct Lending	342,076	358,981	372,703
Work-study	7,021	7,185	6,589
Total Financial Aid to Students	**$ 724,894**	**$ 772,817**	**$ 805,386**

* Includes scholarship allowances of $251,039 in 2010, $280,393 in 2011, and $290,297 in 2012.

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

Gifts, Grants, Contracts and Research Expenditures

As of June 30, 2012, the University was engaged in approximately 7,000 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)

	2010	2011	2012
Federal Sources			
Department of Commerce	$ 9,489	$ 10,789	$ 8,163
Department of Defense	66,046	62,738	68,729
Department of Energy	27,145	35,410	38,468
Department of Health and Human Services	530,832	594,079	546,056
National Aeronautics and Space Administration	16,412	15,340	17,684
National Science Foundation	67,332	74,247	80,080
Department of Transportation	10,457	7,782	10,767
Other Federal Agencies	23,224	24,368	25,104
Total Federal Sources	750,937	824,753	795,051
Nonfederal Sources			
Foundations, Charities and Health Agencies	40,349	37,373	38,889
Industry	39,270	40,840	42,823
State, Local and Foreign Governments	4,040	2,034	775
Professional Societies and Associations	7,509	6,303	7,136
Other, including Other Schools and Universities	8,094	10,693	9,307
Total Nonfederal Sources	98,262	97,243	98,930
University Funds	289,295	314,515	380,044
Total All Sources	**$ 1,139,494**	**$ 1,236,511**	**$ 1,274,025**

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, 2012:

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

	2010	**2011**	**2012**
Operating revenues	$ 1,912.4	$ 1,990.2	$ 2,139.2
Operating expenses	1,852.6	1,937.2	2,150.3
Operating income (loss)	59.8	53.0	(11.1)
Interest expense, net	(12.2)	(19.9)	(16.9)
Net investment income	92.0	212.2	15.7
Capital and permanent endowment gifts	16.3	3.6	(0.6)
Other nonoperating revenues, net	9.2	2.4	3.0
Net revenues (expenses) before transfers	165.1	251.3	(9.9)
Transfers to other University units, net	(100.6)	(102.4)	(105.4)
Increase (decrease) in net assets	$ 64.5	$ 148.9	$ (115.3)

Operating revenues increased in fiscal year 2012 due to continued growth in patient activity as well as increases in revenue per patient case. Operating expenses were higher in 2012, primarily due to growth in patient activity as well as activation costs associated with significant projects, such as the implementation of the new electronic medical record and patient billing system (MiChart) and the C.S. Mott Children's and Von Voigtlander Women's Hospitals, which was placed into service in fiscal year 2012. As a result, the 2012 operating loss declined to (0.5) percent of operating revenues, compared to a profit of 2.7 percent of operating revenues during 2011.

A comparative summary of the UMHHC's patient activity statistics for the three years ended June 30, 2012 is as follows:

	2010	**2011**	**2012**
Inpatient discharges	44,665	44,864	44,924
Patient days	272,801	274,523	277,354
Observation cases	9,693	11,819	13,341
Surgeries	45,439	46,052	48,475
Outpatient visits	1,822,507	1,862,092	1,938,541

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 $288.2 million on a cash basis for the fiscal year ending June 30, 2012. The University receives private gifts from individuals, corporations, foundations, and other sources.

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. The University closed a highly successful five-year development campaign on September 30, 1997, raising more than $1.4 billion in gifts, pledges, and new bequest intentions.

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 more than 7,500 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 will be implemented gradually by keeping quarter to quarter distributions per share unchanged when distributions would otherwise increase under the prior distribution rate policy. This process is expected to be completed the third quarter of fiscal year 2013. 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
2010	$6,564,144
2011	7,834,752
2012	7,691,062

The unaudited market value of the University's endowment funds was $7.9 billion as of December 31, 2012. The total fair value of the University's endowment funds increased by 3.1% during the period June 30, 2012 through December 31, 2012.

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 $8.9 billion at June 30, 2010 to approximately $9.7 billion at June 30, 2012.

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
2010	$ 8,975,870	$ 4,019,413	$ 4,956,457
2011	9,421,635	4,228,461	5,193,174
2012	9,667,214	4,329,550	5,337,664

Other Indebtedness of the University

As of December 31, 2012 the University had $1,839,122,000 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 2013 and 2014

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 $160 million of additional indebtedness for academic buildings, housing and other projects in Fiscal Years 2013 and 2014.

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 35,000 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, 2012, the net OPEB obligation and the actuarial accrued liability totaled $1,672 million and $1,269 million respectively. The University accrued $86 million and paid $51 million for OPEB costs in fiscal 2012. By implementing a series of health benefits initiatives over the past seven years, the University has reduced its actuarial accrued liability by approximately $441 million as of June 30, 2012.

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 affect on its financial position.

TAX MATTERS

In the opinion of Miller, Canfield, Paddock and Stone, P.L.C., Bond Counsel, under existing law, the interest on the 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 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 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 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 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 Bonds to be included in gross income for federal and State of Michigan income tax purposes retroactively to the date of issuance of the Bonds. After the date of issuance of the 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 Bonds or the market prices of the 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 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 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 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 Bond is less than the stated redemption price of such Bonds at maturity, then such Bond is considered to have "original issue discount" equal to the difference between such initial offering price and the amount payable at maturity (such 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 Bond is sold over the amount payable at maturity thereof constitutes for the original purchasers of such Bonds (collectively, the "Original Premium Bonds") an amortizable bond premium. 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 Bonds. Accordingly, holders acquiring their Bonds subsequent to the initial issuance of the 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 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 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 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 Bonds ends with the issuance of the 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 Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the 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 Bonds to be subject directly or indirectly to federal or State of Michigan income taxation, adversely affect the market price or marketability of the 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 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 Bonds for audit examination, or the course or result of any examination of the Bonds, or other bonds which present similar tax issues, will not affect the market price of the Bonds.

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

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 unit of The McGraw-Hill Companies ("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 have been sold by public sale in a competitive bid and are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as successful bidder for the Bonds pursuant to the Official Notice of Sale (the "Underwriter"). The Underwriter submitted a winning bid to purchase all of the Bonds at a discount of $443,940.36 from the original 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 form of opinion of Bond Counsel with respect to the Bonds is attached as Appendix C.

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, 2012 and 2011 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

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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, 2012 and 2011
with
REPORT OF INDEPENDENT AUDITORS

THE UNIVERSITY OF MICHIGAN

June 30, 2012 and 2011

Page(s)

Report of Independent Auditors

The Regents of the University of Michigan

In our opinion, the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of the University of Michigan (the "University") at June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying management's discussion and analysis on pages 2 through 26 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 the 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 19, 2012

PricewaterhouseCoopers LLP, 1900 St. Antoine Street Detroit, MI 48226
T: (313) 394 6000, F: (313)-394-6555 www.pwc.com/us

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, 2012 and 2011 and its activities for the three fiscal years ended June 30, 2012. 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 60,000 students and 7,300 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 42,000 permanent employees and 12,000 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. Excellence in research is another crucial element in the University's high ranking among educational institutions. Research is central to the University's mission and permeates its schools and colleges. In addition to the large volume of research conducted within the academic schools, colleges and departments, the University has more than a dozen large-scale research institutes outside the academic units that conduct, in collaboration with those units, full-time research focused on long-term interdisciplinary matters. 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 $15.7 billion and liabilities of $4.9 billion at June 30, 2012, compared to assets of $15.6 billion and liabilities of $4.7 billion at June 30, 2011. Net assets, which represent the residual interest in the University's assets after liabilities are deducted, totaled $10.8 billion at June 30, 2012 as compared to $10.9 billion at June 30, 2011. Changes in net assets represent the University's results of operations and are summarized for the years ended June 30, 2012 and 2011 as follows:

	2012	**2011**
	(in millions)	
Operating revenues and educational appropriations	$ 5,391.4	$ 5,186.3
Total operating and net interest expenses	5,878.9	5,463.8
	(487.5)	(277.5)
Net investment income	68.7	1,633.0
Gifts and other nonoperating revenues, net	247.7	205.8
(Decrease) increase in net assets	$ (171.1)	$ 1,561.3

Net assets decreased $171 million in fiscal 2012 primarily due to a higher increase in operating and net interest expenses as compared to operating revenues and educational appropriations, combined with a significant decrease in net investment income from the prior year. Net assets increased $1.56 billion in fiscal 2011 primarily due to net investment income.

In 2012, operating revenues and educational appropriations increased 4.0 percent, or $205 million, while total operating and net interest expenses increased 7.6 percent, or $415 million. Operating revenues increased 5.5 percent, or $261 million, primarily due to increased patient care revenues and student tuition offset by decreased federal stimulus revenues, while state educational appropriations and federal Pell grants decreased 13.6 percent, or $56 million.

Operating expenses increased 7.4 percent, or $404 million, in 2012 due to growth in patient activity as well as activation costs and depreciation expense associated with significant capital projects. The new facility for the C.S. Mott Children's and Von Voigtlander Women's Hospitals was placed in service during the current fiscal year. In conjunction with the opening of this new facility and the approval of a renovation to the legacy facility, certain assets of the legacy facility with no future utility were written off. Several significant information technology systems were also implemented in 2012, 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 due to higher incurred losses in medical professional liability and workers compensation. Net interest expense increased $11 million in 2012, to $37 million, primarily due to a decrease in the amount of capitalized interest on debt financed construction as a result of decreased construction in process.

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 declining base 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.

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 University's endowment is invested in an equity oriented long-term strategy, through its Long Term Portfolio. 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.

Net investment income totaled $69 million and $1.63 billion in 2012 and 2011, respectively. In 2012, net investment income included $72 million from the Daily and Monthly Portfolios and $3 million from non-pooled investments offset by a $6 million loss in the Long Term Portfolio. In a difficult year for emerging markets, Europe and other non-U.S. equity markets, strong returns in U.S. fixed income investments, particularly for high-grade corporate and long-term U.S. government bonds, more than offset losses in the University's equity oriented investments. In 2011, net investment income included $1.54 billion from the Long Term Portfolio, $57 million from the Daily and Monthly Portfolios and $36 million from non-pooled investments. Most asset classes experienced double digit positive returns in 2011, with equity and equity related investments across global markets performing particularly well.

Gifts and other nonoperating revenues increased 20 percent to $248 million, due primarily to increased capital gifts.

Using the Financial Statements

The University's financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; 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 Assets

The statement of net assets 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 assets — is one indicator of the current financial condition of the University, while the change in net assets 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 assets at June 30, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in millions)	
Current assets	$ 2,100	$ 2,095
Noncurrent assets:		
Endowment, life income and other investments	7,949	8,122
Capital assets, net	5,338	5,193
Other	263	246
Total assets	15,650	15,656
Current liabilities	1,581	1,408
Noncurrent liabilities	3,316	3,324
Total liabilities	4,897	4,732
Net assets	$ 10,753	$ 10,924

The University continues to maintain and protect its strong financial foundation. This financial health, as reflected in the statement of net assets at June 30, 2012 and 2011, 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 $2.1 billion at June 30, 2012 and 2011. Cash, cash equivalents and investments for operating activities totaled $976 million at June 30, 2012, which represents approximately two months of total expenses excluding depreciation.

Current liabilities consist primarily of accounts payable, accrued compensation, deferred revenue, commercial paper, the current portion of bonds payable and net long-term bonds payable subject to remarketing. Current liabilities totaled $1.6 billion and $1.4 billion at June 30, 2012 and 2011, respectively.

Endowment, Life Income and Other Investments

The composition of the University’s endowment, life income and other investments at June 30, 2012 and 2011 is summarized as follows:

	2012	2011
	(in millions)	
Endowment investments	$ 7,691	$ 7,835
Life income investments	101	105
Noncurrent portion of insurance and benefits obligations investments	157	182
	$ 7,949	$ 8,122

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 7,600 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 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 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 $270 million, $266 million and $255 million and withdrawals from funds functioning as endowment totaled $39 million, $44 million and $5 million in 2012, 2011 and 2010, respectively. Total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 5.2 percent, 5.4 percent and 5.1 percent of the current year average fair value of the University Endowment Fund for 2012, 2011 and 2010, respectively. Over the past ten years, total spending rate distributions combined with withdrawals from funds functioning as endowment averaged 5.4 percent.

In 2012, the University's endowment, life income and other investments decreased $173 million, to $7.9 billion at June 30, 2012. This decrease resulted primarily from endowment spending rate distributions and withdrawals from funds functioning as endowment in excess of new endowments from gifts and other sources, and from small net losses incurred in the equity oriented Long Term Portfolio.

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 $591 million in 2012, as compared to $635 million in 2011. Capital asset additions primarily represent replacement, renovation and new construction of academic, research, clinical, athletic and student residence facilities, as well as significant investments in equipment, including information technology. Current year capital asset additions were primarily funded with net assets and gifts designated for capital purposes of $400 million, as well as debt proceeds of $191 million. Construction in progress, which totaled $227 million at June 30, 2012 and $825 million at June 30, 2011, includes important projects for patient care, research, instruction, athletics and student residential life.

Renovation projects completed in 2012 include Alice Lloyd Hall. Like the extensive renovations to Mosher Jordan, Stockwell and Couzens residence halls in previous years, the infrastructure of the building was thoroughly upgraded, including high-speed network access, accessibility improvements, renovated bath facilities, and new plumbing, heating, cooling, ventilation and fire detection and suppression systems. In addition, energy conservation measures were implemented to improve the energy performance of the overall building, which was originally constructed in 1949. New spaces were created in the vacated dining areas, that are no longer needed since the Hill area Dining Center became operational in Fall 2008, for living-learning and academic initiatives, student interaction and creation of community.

New construction projects completed in 2012 include a new facility for C.S. Mott Children's Hospital and Von Voigtlander Women's Hospital to meet increasing patient demand and accommodate research, education and clinical care innovations. The new state-of-the art facility further enhances specialty services for newborns, children and women not offered anywhere else in Michigan, including programs for Level I pediatric trauma, pediatric liver transplant and craniofacial anomalies as well as high-risk pregnancy and specialty gynecological services. With a clinic building of nine floors and an inpatient building of twelve floors, the new facility totals approximately 1.1 million square feet. This new facility, whose construction commenced in fiscal 2007 and opened in December 2011, enables our world-renowned physicians and researchers to deliver world-class care and train tomorrow's generation of women's and children's physicians and nurses to go into practice with the most advanced experience possible.

Legal education has changed considerably since Hutchins Hall, the main classroom and administrative building for the Law School, opened in 1933. Today's law students take a greater number of small classes, interact more with each other and with clients in supervised clinical settings and draw heavily on technology. Located across Monroe Street and south of the Law Quadrangle, a new four-story academic and administrative building opened in 2012 to meet these needs, as well as provide more space for a student body which has more than doubled since the last time the Law School added classroom space. In addition, the new, two-level Robert B. Aikens Commons now occupies the previously unused grassy area between Hutchins Hall and the Legal Research Building, and includes a main floor café and a lower level designed to facilitate student meetings and study groups. Life safety upgrades to Hutchins Hall and the Cook Library were also completed.

To address the need for more functional training and practice space for the men's and women's basketball programs, the William Davidson Player Development Center was completed in 2012. The Center connects to the east side of Crisler Arena and houses two basketball practice courts, team locker areas, strength and conditioning space, athletic medicine space and coaching and staff offices. At June 30, 2012, construction continued on a renovation and expansion of Crisler Arena which had only received minor renovations since its construction in 1967. The renovation will accommodate accessible seats, improve circulation and egress, increase restrooms and concessions and add other fan amenities, while the expansion will create new spectator entrances, retail spaces, ticketing areas and a private club space. This project is expected to be fully completed in Winter 2013.

Construction in process at June 30, 2012 also includes renovations of student residences at East Quadrangle and the Law School. The renovation of the East Quadrangle residence hall is part of the University’s residential life initiatives, a comprehensive multi-year plan to improve and expand the student residential experience. The renovation will also reconfigure spaces to create new study and gathering spaces for students and create synergies between the academic and residential programs in the building. In addition, the infrastructure of the building will be thoroughly upgraded and energy conservation measures will be implemented to improve the energy performance of the overall building, which was originally constructed in 1940. This project is expected to be completed by Fall 2013.

One of the largest gifts ever made to the Law School will help revitalize living spaces within the student-housing portion of the Law Quadrangle. This renovation will upgrade student rooms and other living areas, which were originally constructed in 1924, while preserving the historic Gothic exteriors. This project is expected to be completed by Fall 2013.

The unoccupied portion of the North Campus Research Complex, which was originally acquired from Pfizer in 2009, is classified as property held for future use and totaled $47 million and $54 million at June 30, 2012 and 2011, respectively. This complex supports the growth of the University’s translational research initiatives through the population of office space, laboratories and other facilities over the next several years. At June 30, 2012, the complex has seven translational science initiatives bringing together hundreds of research team members from many disciplines and schools for work in cardiovascular research, translational oncology, healthcare policy and innovation, emergency medicine, computational medicine and bioinformatics, distributed health technologies and biointerfaces. In addition, the complex now has nine shared facilities for scientists’ use including bioinformatics analysis, DNA sequencing, and microscopy and image analysis.

The University takes its financial stewardship responsibility seriously and works hard 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 2012, 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, 2012, 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	$ 91	$ 108	$ 136	$ 63
Bonds and Notes:				
General revenues	1,242	219	40	1,421
Hospital revenues	295		15	280
Faculty Group Practice revenues	62		2	60
Student residences revenues	2			2
	$ 1,692	$ 327	$ 193	$ 1,826

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, 2012 and 2011, commercial paper totaled $63 million and $91 million, respectively, and is included in current liabilities.

During 2012, consistent with capital and debt financing plans, the University issued $115 million of variable rate tax-exempt revenue bonds (Series 2012A and Series 2012B) and $90 million of fixed-rate tax-exempt general revenue bonds (Series 2012C) with a net original issue premium of $14 million. Bond proceeds, which totaled $219 million, were utilized to convert $119 million of commercial paper to long-term debt and provide $100 million for capital projects and debt issuance costs.

The University maintains a combination of fixed and variable rate debt, which totaled $1.8 billion and $1.7 billion at June 30, 2012 and 2011, respectively. The University's fixed and variable rate debt at June 30, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in millions)	
Variable rate:		
Commercial paper	$ 63	$ 91
Demand bonds	847	747
Fixed rate bonds	916	854
	$ 1,826	$ 1,692

In 2012, the University continued to increase its mix of fixed rate bonds relative to variable rate demand bonds. While fixed rate bonds typically have a higher effective rate of interest as compared to variable rate demand 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 2.3 percent in 2012 and 2.5 percent in 2011, including the amortization of bond premiums and discounts and net of 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 $37 million in 2012 and $26 million in 2011, while capitalized interest on debt financed construction in progress totaled $6 million and $18 million in 2012 and 2011, respectively.

The University's variable rate bonds are subject to remarketing and, in accordance with GASB Interpretation No. 1, are classified as current liabilities 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.

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 $1.67 billion and $1.64 billion at June 30, 2012 and 2011, 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 $263 million and $239 million at June 30, 2012 and 2011, respectively.

By implementing a series of health benefit initiatives over the past seven years, the University has favorably impacted its actuarial accrued liability for postemployment benefits by approximately $441 million as of June 30, 2012. These initiatives have included cost sharing changes, elimination of Medicare Part B reimbursements for certain retirees and adjustment of retirement eligibility criteria. At June 30, 2012, the recorded liability for net postemployment benefits obligations totaled $1.67 billion and the actuarial accrued liability totaled $1.27 billion. 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 financial condition differs from the actuarial accrued liability by the unamortized portion of changes in actuarial assumptions, plan design and experience gains and losses.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. The composition of the University's net assets at June 30, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in millions)	
Invested in capital assets, net of related debt	$ 3,598	$ 3,575
Restricted:		
Nonexpendable:		
Permanent endowment corpus	1,346	1,279
Expendable:		
Net appreciation of permanent endowments	1,193	1,312
Funds functioning as endowment	1,597	1,652
Restricted for operations and other	493	503
Unrestricted	2,526	2,603
	$ 10,753	$ 10,924

Net assets invested in capital assets represent the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The $23 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 assets represent the historical value (corpus) of gifts to the University's permanent endowment funds. The $67 million increase primarily represents new gifts. Restricted expendable net assets are subject to externally imposed stipulations governing their use. This category of net assets includes net appreciation of permanent endowments, funds functioning as endowment and net assets restricted for operations, facilities and student loan programs. Restricted expendable net assets totaled $3.3 billion at June 30, 2012, as compared to $3.5 billion at June 30, 2011.

Although unrestricted net assets are not subject to externally imposed stipulations, all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. Unrestricted net assets at June 30, 2012 and 2011 totaled $2.5 billion and $2.6 billion, respectively. At June 30, 2012, unrestricted net assets included funds functioning as endowment of $3.5 billion offset by unfunded obligations for postemployment benefits of $1.7 billion. At June 30, 2011, unrestricted net assets included funds functioning as endowment of $3.5 billion offset by unfunded obligations for postemployment benefits of $1.6 billion. Unrestricted net assets also included other net resources of $700 million at June 30, 2012 and 2011.

Statement of Revenues, Expenses and Changes in Net Assets

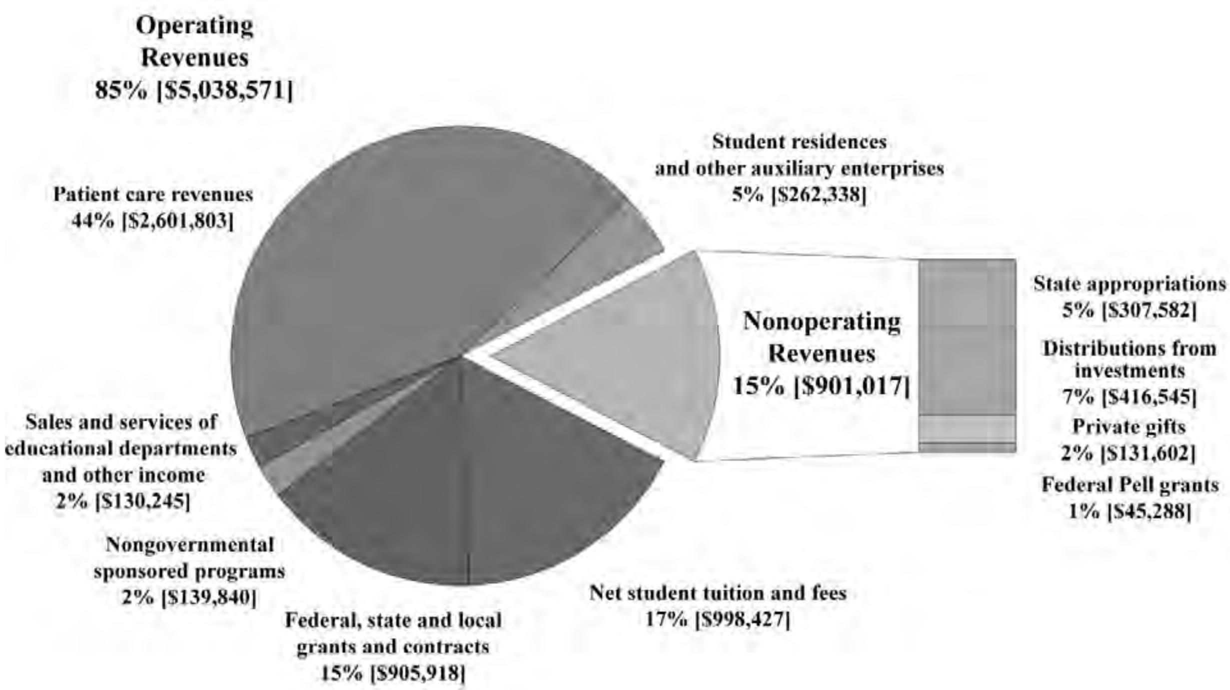
The statement of revenues, expenses and changes in net assets presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A comparison of the University's revenues, expenses and changes in net assets for the three years ended June 30, 2012 is summarized as follows:

	2012	2011 (in millions)	2010
Operating revenues:			
Student tuition and fees, net of scholarship allowances	$ 998.4	$ 915.7	$ 863.9
Sponsored programs	1,045.8	1,072.9	990.3
Patient care revenues, net	2,601.8	2,411.1	2,310.8
Other	392.6	378.1	372.1
	5,038.6	4,777.8	4,537.1
Operating expenses	5,842.1	5,437.8	5,218.8
Operating loss	(803.5)	(660.0)	(681.7)
Nonoperating and other revenues (expenses):			
State educational appropriations	307.6	361.9	362.1
State fiscal stabilization funds			10.1
Federal Pell grants	45.3	46.7	39.9
Private gifts for operating activities	131.6	127.8	105.2
Net investment income	68.7	1,633.0	796.4
Interest expense, net	(45.1)	(33.1)	(30.0)
Federal subsidies for interest on Build America Bonds	8.3	7.1	3.3
State capital appropriations	0.1	0.8	2.0
Endowment and capital gifts and grants	107.6	82.3	88.7
Other	8.3	(5.2)	2.4
Nonoperating and other revenues, net	632.4	2,221.3	1,380.1
(Decrease) increase in net assets	(171.1)	1,561.3	698.4
Net assets, beginning of year	10,924.3	9,363.0	8,664.6
Net assets, end of year	$ 10,753.2	$ 10,924.3	$ 9,363.0

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, 2012 (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.

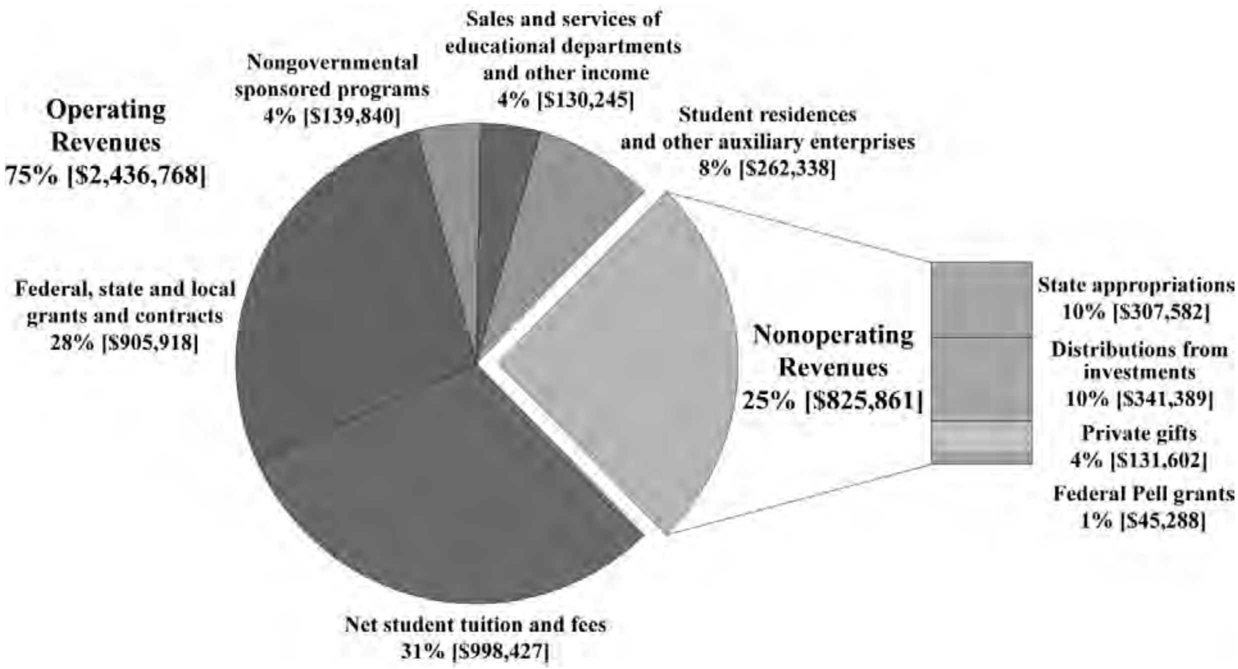
Fiscal Year 2012 Revenues for Operating Activities



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

The University measures its performance both for the University as a whole and for the University without its Health System and other similar activities. The exclusion of the Health System 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, for the year ended June 30, 2012 (amounts are presented in thousands of dollars).

Fiscal Year 2012 Revenues for Operating Activities Excluding Revenues from the University's Health System



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 2 percent, or $28 million, to $1.31 billion in 2012, as compared to 4 percent, or $52 million, to $1.28 billion in 2011.

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

Downturns in state of Michigan tax revenues continue to put pressure on the state budget. In 2012, the University's state educational appropriations were reduced by 15 percent, or $54 million, to $308 million, the largest cut in state appropriations in the University's history. In 2011, the University's state educational appropriations were reduced by $268,000, to $362 million.

To maintain academic excellence and offset reduced state appropriations, net student tuition and fees revenue increased 9 percent in 2012 and 6 percent in 2011. For the three years ended June 30, 2012, net student tuition and fees revenue consisted of the following components:

	2012	**2011** (in millions)	**2010**
Student tuition and fees	$ 1,269.7	$ 1,177.9	$ 1,097.5
Scholarship allowances	(271.3)	(262.2)	(233.6)
	$ 998.4	$ 915.7	$ 863.9

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 a 6.8 percent and 4.9 percent tuition rate increase for Flint campus undergraduate and graduate students, respectively. The University also experienced moderate growth in the number of students, particularly nonresident students.

In 2011, net student tuition and fees revenue increased 6 percent, or $52 million, to $916 million, which reflects a 7 percent, or $80 million, increase in gross tuition and fee revenues offset by a 12 percent, or $28 million increase in scholarship allowances. Tuition rate increases in 2011 were 1.5 percent for resident undergraduate students, 3.0 percent for nonresident undergraduate students and 2.8 percent for most graduate students on the Ann Arbor campus, with a 3.9 percent tuition rate increase for all undergraduates and 2.9 percent increase for most graduate students on the Dearborn campus, and a 3.9 percent tuition rate increase for most undergraduate students on the Flint campus. The University also experienced significant growth in the number of students.

Despite significant reductions in state appropriations, the University's tuition increases have consistently been among the lowest in the state, 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.

In absorbing this year's historic cut in state funding, 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 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.

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 $132 million in 2012, as compared to $128 million in 2011 and $105 million in 2010.

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 decreased 3 percent, or $27 million, to $1.0 billion in 2012, as compared to an increase of 8 percent, or $83 million, to $1.1 billion in 2011, primarily due to the spend down of federal stimulus awards from the American Recovery and Reinvestment Act of 2009. Federal stimulus revenue decreased $58 million to $59 million in 2012 and increased $58 million, to $117 million in 2011.

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 8 percent, or $191 million, to $2.6 billion in 2012, as compared to an increase of 4 percent, or $100 million, to $2.4 billion in 2011. The increased revenues for both years primarily resulted from a growth in both outpatient and inpatient volume, as well as increased reimbursement rates from third party payers.

Net investment income totaled $69 million in 2012, as compared to $1.6 billion and $796 million in 2011 and 2010, respectively. In 2012, a difficult year for emerging markets, Europe and other non-U.S. equity markets, strong returns in U.S. fixed income investments, particularly for high-grade corporate and long-term U.S. government bonds, more than offset losses in the University's equity oriented investments. Financial markets rebounded strongly in 2011 and 2010 from the losses in 2009, with most asset classes experiencing double digit positive returns. Equity and equity related investments across global markets performed particularly well in 2011 and 2010. In addition, the real estate segment of the University's investment portfolio experienced positive returns in 2012 and 2011 after losses in 2010.

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.

Endowment and capital gifts and grants totaled $108 million in 2012 as compared to $82 million and $89 million in 2011 and 2010, respectively, with the increase in 2012 due primarily to increased capital gifts. Private gifts for permanent endowment purposes totaled $56 million in 2012, as compared to $57 million in 2011 and $60 million in 2010. Capital gifts and grants totaled $52 million in 2012, as compared to $25 million in 2011 and $29 million in 2010. Over the past three years, major capital gifts have been received in support of the University's wide-ranging building initiatives which include the Health System, Law School, Stephen M. Ross School of Business, Intercollegiate Athletics, College of Engineering and Museum of Art 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 65 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, 2012 is as follows (amounts in millions):

	2012		2011		2010	
Operating:						
Compensation and benefits	$ 3,804.3	65%	$ 3,633.8	66%	$ 3,529.3	66%
Supplies and services	1,473.7	25	1,299.6	24	1,215.6	24
Depreciation	443.1	7	390.1	7	360.1	7
Scholarships and fellowships	121.0	2	114.3	2	113.8	2
	5,842.1	99	5,437.8	99	5,218.8	99
Nonoperating:						
Interest, net	36.8	1	26.0	1	26.7	1
	$ 5,878.9	100%	$ 5,463.8	100%	$ 5,245.5	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 5 percent, or $171 million, to $3.8 billion in 2012, as compared to a 3 percent, or $105 million, increase to $3.6 billion in 2011. Of the 2012 increase, compensation increased 6 percent, to $2.9 billion, and employee benefits increased 2 percent, to $870 million. During 2012, nursing and other health professionals were added to support higher patient volume levels associated with the opening of the new C.S. Mott Children's Hospital and Von Voigtlander Women's Hospital. For 2011, compensation increased 4 percent, to $2.8 billion, and employee benefits increased less then 1 percent, to $854 million.

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 82 percent generic dispensing rate in 2012, as compared to 76 percent in 2011 and 72 percent in 2010.

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 2012, the University substantially completed a two-year phase in of a new health benefits cost sharing program. Once fully implemented, the University's overall contribution toward the health care of employees, retirees and dependents will be 70 percent of the total cost of premiums, co-pays and deductibles. Down from the current 80 percent overall contribution, the new target is more in line with average contributions of peer universities and health systems. The percentage applied to each individual depends on the plan choice and whether dependents are covered. Under the new structure, contribution amounts are based on salary bands which are designed to lessen the impact on lower paid employees and retirees. 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.

During 2011, the University announced 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, changes will be phased in gradually over the eight-year period January 1, 2013 through January 1, 2021.

Commencing January 1, 2013, the University will use 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 will total 76 in 2013 and 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, commencing in 2013. These adjustments will keep the University's retiree benefits competitive with peer institutions while producing an estimated $9 million reduction in annual cash outlay by 2020 and an estimated $165 million reduction in annual cash outlay by 2040.

The 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. During 2012, approximately 20,000 employees completed the annual health questionnaire, of which nearly 18,000 also completed a wellness screening. Since the inception of the MHealthy initiative in 2009, over 70 percent of employees have completed a health assessment and participated in at least one qualifying health and wellness program. 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 13 percent, or $174 million, to $1.5 billion in 2012, primarily due to growth in patient activity as well as activation costs associated with significant capital projects. The new facility for the C.S. Mott Children's and Von Voigtlander Women's Hospitals was placed in service during the current fiscal year 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 due to higher incurred losses in medical professional liability and workers compensation. Supplies and services expenses increased 7 percent, or $84 million, to $1.3 billion in 2011, primarily due to increases in patient care related expenses and sponsored research activities offset by aggressive cost cutting and productivity gains.

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

Depreciation expense increased 14 percent, or $53 million, to $443 million in 2012, as compared to an 8 percent, or $30 million, increase to $390 million in 2011. Significant capital projects that were completed during 2012 include a new facility for the C.S. Mott Children's and Von Voigtlander Women's Hospitals, renovation to 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 $11 million in 2012 to $37 million, from $26 million in 2011 and $27 million in 2010. The 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, 2012 is as follows (amounts in millions):

	2012		2011		2010	
Operating:						
Instruction	$ 892.5	15%	$ 853.1	16%	$ 850.6	16%
Research	718.8	12	733.5	13	679.5	13
Public service	129.6	2	131.5	2	135.8	2
Institutional and academic support	504.5	9	486.3	9	485.0	9
Auxiliary enterprises:						
Patient care	2,532.4	43	2,285.2	42	2,182.7	42
Other	215.6	4	168.5	3	145.3	3
Operations and maintenance of plant	284.6	5	275.3	5	266.0	5
Depreciation	443.1	7	390.1	7	360.1	7
Scholarships and fellowships	121.0	2	114.3	2	113.8	2
	5,842.1	99	5,437.8	99	5,218.8	99
Nonoperating:						
Interest, net	36.8	1	26.0	1	26.7	1
	$ 5,878.9	100%	$ 5,463.8	100%	$ 5,245.5	100%

Instruction expenses increased 5 percent, or $42 million, to $893 million in 2012, from $851 million in 2010. 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 $1.27 billion in 2012, as compared to $1.24 billion in 2011 and $1.14 billion in 2010. This represents an increase of 12 percent, or $133 million, from 2010 to 2012 and includes the impact of stimulus funds from the American Recovery and Reinvestment Act of 2009.

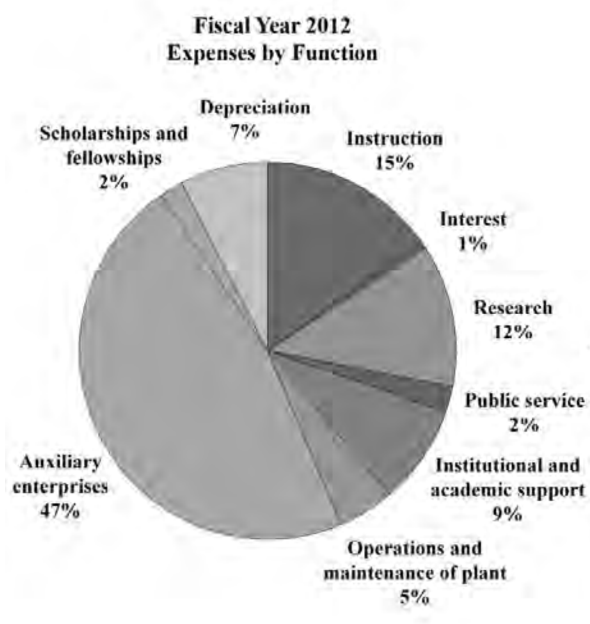
Management's Discussion and Analysis (Unaudited)--Continued

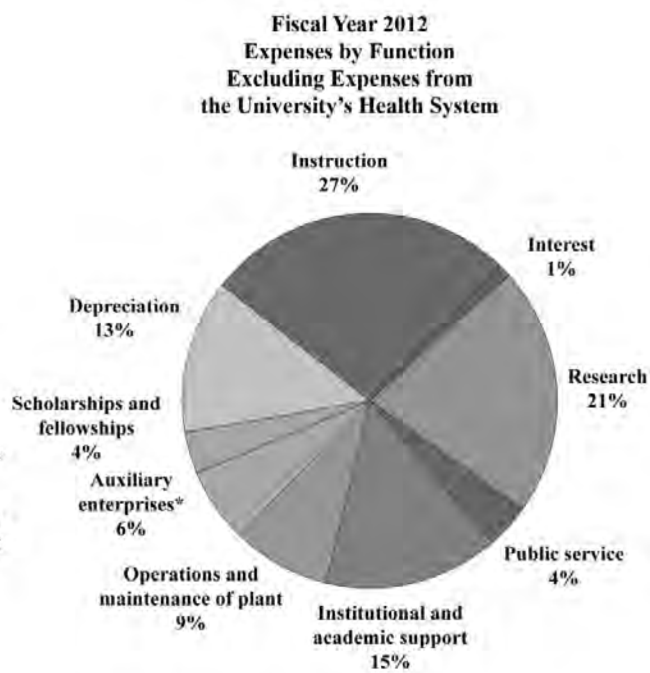
Patient care expenses increased 11 percent, or $247 million, to $2.5 billion in 2012, from $2.3 billion in 2011. This increase is the result of increased patient activity from the opening of the new children and women’s hospital facility, including costs of staffing, medical supplies and pharmaceuticals. Patient care expenses increased 5 percent, or $103 million, to $2.3 billion in 2011, from $2.2 billion in 2010.

Total scholarships and fellowships provided to students aggregated $411 million in 2012, as compared to $395 million in 2011 and $365 million in 2010, an increase of 13 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, 2012 are summarized as follows:

	2012	2011 (in millions)	2010
Paid directly to students	$ 121.0	$ 114.3	$ 113.8
Applied to tuition and fees	271.3	262.2	233.6
Applied to University Housing	19.0	18.2	17.4
	$ 411.3	$ 394.7	$ 364.8

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





* Excludes expenses from the University’s Health System of $2.5 billion

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, 2012 and 2011 is as follows:

	2012	2011
	(in millions)	
Cash received from operations	$ 5,011.9	$ 4,806.5
Cash expended for operations	(5,332.5)	(5,020.5)
Net cash used in operating activities	(320.6)	(214.0)
Net cash provided by investing activities	141.3	176.5
Net cash used in capital and related financing activities	(436.2)	(441.7)
Net cash provided by noncapital financing activities	537.7	601.1
Net (decrease) increase in cash and cash equivalents	(77.8)	121.9
Cash and cash equivalents, beginning of year	316.5	194.6
Cash and cash equivalents, end of year	$ 238.7	$ 316.5

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, state fiscal stabilization funds, 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 anticipated 1.6 percent increase in state educational appropriations in fiscal 2013 follows a 15 percent cut in state funding in fiscal 2012. To support the University's commitment to both academic excellence and accessibility, the University's budget for fiscal 2013 includes a moderate increase in tuition rates along with an increased investment in financial aid for undergraduates. Resident undergraduate tuition on the Ann Arbor campus will increase 2.8 percent and the University maintains a commitment to meet the full demonstrated financial need of resident undergraduate students with a 10.1 percent increase in centrally awarded financial aid. Nonresident undergraduate tuition will increase 3.5 percent, while most graduate and professional rates will increase 3.0 percent. Resident undergraduate tuition on the Dearborn and Flint campuses will increase 3.7 percent and 3.6 percent, respectively. The University has been able to avoid the severe cuts and double-digit tuition increases experienced by institutions around the country because of its prudent long-term plan.

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 $780 million at June 30, 2012. Funding for these projects is anticipated to include $728 million from gifts, grants and net assets designated for capital purposes as well as future borrowings and $52 million from the utilization of unexpended debt proceeds. Economic pressures are expected to affect the State's future support.

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 cost of the University's health benefits for its employees and retirees has increased dramatically over the past several years, with the increasing cost of medical care and prescription drugs of particular concern. To address these challenges, the University has successfully taken and will continue to take proactive steps to respond to the challenges of rising costs while protecting the quality of the overall benefit 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 2014. 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. The University is also considering the benefits of a member engagement health plan design, which would include incentives for members to engage in health and well-being activities.

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 Assets

	June 30, 2012	2011
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	**$ 238,690**	$ 316,534
Investments for operating activities	**737,384**	664,197
Investments for capital activities	**388,637**	369,687
Investments for student loan activities	**55,706**	50,162
Accounts receivable, net	**494,787**	452,611
Current portion of notes and pledges receivable, net	**59,553**	58,586
Current portion of prepaid expenses and other assets	**78,254**	82,435
Cash collateral held by agent	**47,200**	100,600
Total Current Assets	**2,100,211**	2,094,812
Noncurrent Assets:		
Endowment, life income and other investments	**7,948,955**	8,122,450
Notes and pledges receivable, net	**196,692**	194,359
Prepaid expenses and other assets	**66,718**	51,340
Capital assets, net	**5,337,664**	5,193,173
Total Noncurrent Assets	**13,550,029**	13,561,322
Total Assets	**$ 15,650,240**	$ 15,656,134
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	**$ 195,055**	$ 167,153
Accrued compensation and other	**350,508**	367,769
Deferred revenue	**200,966**	193,801
Current portion of insurance and benefits reserves	**84,155**	72,539
Current portion of obligations for postemployment benefits	**56,131**	53,638
Commercial paper and current portion of bonds payable	**135,193**	147,553
Long-term bonds payable subject to remarketing, net	**482,202**	274,895
Collateral held for securities lending	**47,200**	100,600
Deposits of affiliates and others	**29,988**	30,439
Total Current Liabilities	**1,581,398**	1,408,387
Noncurrent Liabilities:		
Accrued compensation	**68,498**	70,190
Insurance and benefits reserves	**102,821**	93,337
Obligations for postemployment benefits	**1,615,433**	1,583,014
Obligations under life income agreements	**44,056**	46,219
Government loan advances	**91,211**	90,904
Bonds payable	**1,208,869**	1,270,017
Deposits of affiliates and other	**184,757**	169,804
Total Noncurrent Liabilities	**3,315,645**	3,323,485
Total Liabilities	**4,897,043**	4,731,872
Net Assets:		
Invested in capital assets, net of related debt	**3,597,540**	3,574,878
Restricted:		
Nonexpendable	**1,345,859**	1,279,058
Expendable	**3,283,639**	3,467,232
Unrestricted	**2,526,159**	2,603,094
Total Net Assets	**10,753,197**	10,924,262
Total Liabilities and Net Assets	**$ 15,650,240**	$ 15,656,134

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 Assets

	Year Ended June 30, 2012	2011
	(in thousands)	
Operating Revenues		
Student tuition and fees	**$ 1,269,703**	$ 1,177,897
Less scholarship allowances	**271,276**	262,181
Net student tuition and fees	**998,427**	915,716
Federal grants and contracts	**901,764**	930,436
State and local grants and contracts	**4,154**	4,464
Nongovernmental sponsored programs	**139,840**	138,007
Sales and services of educational departments	**127,473**	124,235
Auxiliary enterprises:		
Patient care revenues (net of provision for bad debts of $105,618 in 2012 and $89,466 in 2011)	**2,601,803**	2,411,131
Student residence fees (net of scholarship allowances of $19,201 in 2012 and $18,212 in 2011)	**94,134**	90,232
Other revenues	**168,204**	160,727
Student loan interest income and fees	**2,772**	2,818
Total Operating Revenues	**5,038,571**	4,777,766
Operating Expenses		
Compensation and benefits	**3,804,225**	3,633,765
Supplies and services	**1,473,665**	1,299,651
Depreciation	**443,132**	390,071
Scholarships and fellowships	**121,040**	114,316
Total Operating Expenses	**5,842,062**	5,437,803
Operating loss	**(803,491)**	(660,037)
Nonoperating Revenues (Expenses)		
State educational appropriations	**307,582**	361,879
Federal Pell grants	**45,288**	46,669
Private gifts for other than capital and endowment purposes	**131,602**	127,751
Net investment income	**68,650**	1,632,968
Interest expense, net	**(45,096)**	(33,094)
Federal subsidies for interest on Build America Bonds	**8,258**	7,119
Total Nonoperating Revenues, Net	**516,284**	2,143,292
(Loss) income before other revenues (expenses)	**(287,207)**	1,483,255
Other Revenues (Expenses)		
State capital appropriations	**100**	843
Capital gifts and grants	**51,934**	24,907
Private gifts for permanent endowment purposes	**55,742**	57,451
Other	**8,366**	(5,182)
Total Other Revenues, Net	**116,142**	78,019
(Decrease) increase in net assets	**(171,065)**	1,561,274
Net Assets, Beginning of Year	**10,924,262**	9,362,988
Net Assets, End of Year	**$ 10,753,197**	$ 10,924,262

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, 2012	2011
	(in thousands)	
Cash Flows From Operating Activities		
Student tuition and fees	**$ 1,003,383**	$ 919,040
Federal, state and local grants and contracts	**899,174**	932,002
Nongovernmental sponsored programs	**149,902**	136,619
Sales and services of educational departments and other	**295,671**	289,242
Patient care revenues	**2,549,627**	2,419,524
Student residence fees	**93,892**	90,448
Payments to employees	**(2,962,246)**	(2,772,856)
Payments for benefits	**(806,769)**	(814,083)
Payments to suppliers	**(1,427,728)**	(1,307,883)
Payments for scholarships and fellowships	**(121,025)**	(114,292)
Student loans issued	**(14,761)**	(11,460)
Student loans collected	**17,497**	16,847
Student loan interest and fees collected	**2,772**	2,818
Net Cash Used in Operating Activities	**(320,611)**	(214,034)
Cash Flows From Investing Activities		
Interest and dividends on investments, net	**55,934**	68,488
Proceeds from sales and maturities of investments	**3,583,260**	3,000,798
Purchases of investments	**(3,704,732)**	(2,785,120)
Net decrease (increase) in cash equivalents from noncurrent investments	**209,804**	(125,176)
Net (decrease) increase in deposits of affiliates and others	**(3,002)**	17,541
Net Cash Provided by Investing Activities	**141,264**	176,531
Cash Flows From Capital and Related Financing Activities		
State capital appropriations	**100**	873
Private gifts and other receipts	**58,056**	35,395
Proceeds from issuance of capital debt	**326,730**	305,447
Principal payments on capital debt	**(189,366)**	(114,251)
Interest payments on capital debt, net of capitalized interest	**(47,895)**	(33,643)
Federal subsidies for Build America Bonds interest	**8,258**	6,296
Payments for bond refunding and related costs	**(650)**	(1,240)
Purchases of capital assets, including capitalized interest	**(592,357)**	(641,718)
Proceeds from sales of capital assets	**890**	1,129
Net Cash Used in Capital and Related Financing Activities	**(436,234)**	(441,712)
Cash Flows From Noncapital Financing Activities		
State educational appropriations	**317,454**	361,928
State fiscal stabilization funds		4,720
Federal Pell grants	**45,288**	46,669
Private gifts and other receipts	**177,698**	188,533
Student direct lending receipts	**371,963**	360,476
Student direct lending disbursements	**(372,703)**	(358,981)
Amounts received for annuity and life income funds	**4,886**	4,502
Amounts paid to annuitants and life beneficiaries and related expenses	**(6,849)**	(6,743)
Net Cash Provided by Noncapital Financing Activities	**537,737**	601,104
Net (decrease) increase in cash and cash equivalents	**(77,844)**	121,889
Cash and Cash Equivalents, Beginning of Year	**316,534**	194,645
Cash and Cash Equivalents, End of Year	**$ 238,690**	$ 316,534

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, 2012	2011
	(in thousands)	
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	**$ (803,491)**	$ (660,037)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**443,132**	390,071
Changes in assets and liabilities:		
Accounts receivable, net	**(48,579)**	7,935
Prepaid expenses and other assets	**(7,199)**	(10,853)
Accounts payable	**36,526**	(335)
Accrued compensation and other	**(4,177)**	10,658
Deferred revenue	**7,165**	9,379
Insurance and benefits reserves	**21,100**	10,604
Obligations for postemployment benefits	**34,912**	28,544
Net cash used in operating activities	**$ (320,611)**	$ (214,034)

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 60,000 students on its three campuses. The financial statements include the individual schools, colleges and departments, the University of Michigan Hospitals and Health Centers, Michigan Health Corporation (a wholly-owned corporation created to pursue joint venture and managed care initiatives) and Veritas Insurance Corporation (a wholly-owned captive insurance company). While the University is a political subdivision of the state of Michigan, it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*. The University is classified as a state instrumentality under Internal Revenue Code Section 115, and is also classified as a charitable organization under Internal Revenue Code Section 501(c)(3), and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under Internal Revenue Code Sections 511 to 514.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by GASB and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments*. The statements of net assets, revenues, expenses and changes in net assets and of cash flows are reported on a consolidated basis, and all intra-university transactions are eliminated as required by GASB.

The University 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 University has the option of applying pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. The University has elected not to apply any FASB pronouncements issued after the applicable date.

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.

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

Net assets are categorized as:

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

- Restricted:

  Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently. Such net assets include the corpus portion (historical value) of gifts to the University's permanent endowment funds and certain investment earnings stipulated by the donor to be reinvested permanently.

  Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. Such net assets include net appreciation of the University's permanent endowment funds that have not been stipulated by the donor to be reinvested permanently.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents. Substantially all unrestricted net assets are designated for academic and research programs and initiatives and capital programs.

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

Investments are reported in four categories in the statement of net assets. Investments reported as endowment, life income and other investments are those funds invested in portfolios that are considered by management to be of a long duration. Investments for student loan and capital activities are those funds that are intended to be used for these specific activities. All other investments are reported as 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, 2012 and 2011, as adjusted by cash receipts, cash disbursements and securities distributions through June 30, 2012 and 2011, 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, 2012 and 2011. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed and such differences could be material.

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

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

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

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

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

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 primarily range from four to forty years. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research or public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

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

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

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

For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act, as adopted in Michigan, permits the Board of Regents to appropriate amounts for endowment spending rule distributions as is considered prudent. The University's policy is to retain net realized and unrealized appreciation with the endowment after spending rule distributions. Net appreciation of permanent endowment funds, which totaled $1,193,000,000 and $1,312,000,000 at June 30, 2012 and 2011, respectively, is recorded in restricted expendable net assets. 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. 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 assets.

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

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

Note 2--Cash and Investments

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

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

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

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 $238,690,000 and $316,534,000 at June 30, 2012 and 2011, 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 $92,000 and $50,000 at June 30, 2012 and 2011, respectively. Under FDIC rules implemented during 2011, the University's noninterest-bearing transaction accounts have temporarily unlimited insurance coverage through December 31, 2012. The University does not require deposits to be collateralized or insured.

Investments: At June 30, 2012 and 2011, the University's investments, which are held by the University or its agents in the University's name, are summarized as follows:

	2012	**2011**
	(in thousands)	
Cash equivalents, noncurrent	$ 37,846	$ 247,650
Fixed income securities	1,640,239	1,435,082
Commingled funds	1,630,173	1,571,478
Equity securities	783,792	1,002,151
Nonmarketable alternative investments	5,029,814	4,941,887
Other investments	8,818	8,248
	$ 9,130,682	$ 9,206,496

Note 2--Cash and Investments--Continued

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

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

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of fixed income securities. Effective duration, a commonly used measure of interest rate risk, incorporates a security's yield, coupon, final maturity, call features and other imbedded options into one number expressed in years that indicates how price-sensitive a security or portfolio of securities is to changes in interest rates. The effective duration of a security or portfolio indicates the approximate percentage change in fair value expected for a one percent change in interest rates. The longer the duration, the more sensitive the security or portfolio is to changes in interest rates. The weighted average effective duration of the University's fixed income securities was 5.6 years at June 30, 2012, compared to 5.0 years at June 30, 2011. 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.

Note 2--Cash and Investments--Continued

The composition of fixed income securities at June 30, 2012 and 2011, along with credit quality and effective duration measures, is summarized as follows:

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

2011	U.S. Government	Investment Grade	Non-Investment Grade (in thousands)	Not Rated	Total	Duration (in years)
U.S. Treasury	$ 96,076				$ 96,076	7.3
U.S. Treasury inflation protected	324,503				324,503	4.2
U.S. government agency	226,764				226,764	0.7
Mortgage backed		$ 27,941	$ 21,144		49,085	0.9
Asset backed		32,527	1,036		33,563	1.2
Corporate and other		677,307	17,525	$ 10,259	705,091	7.0
	$ 647,343	$ 737,775	$ 39,705	$ 10,259	$ 1,435,082	5.0

Of the University's fixed income securities, 97 percent were rated investment grade or better at June 30, 2012 and 2011, and 55 percent and 52 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, 2012 and 2011, respectively.

Note 2--Cash and Investments--Continued

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, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in thousands)	
Absolute return	$ 772,830	$ 764,844
U.S. equities	225,631	101,890
Non-U.S./global equities	590,330	681,154
U.S. fixed income	33,714	15,123
Other	7,668	8,467
	$ 1,630,173	$ 1,571,478

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, 2012 and 2011, approximately 71 percent and 76 percent are redeemable within one year, with 48 and 51 percent redeemable within 90 days under normal market conditions. The remaining amounts are redeemable beyond one year, with redemption of certain funds dependent on disposition of the underlying assets.

Nonmarketable alternative investments consist of limited partnerships and similar vehicles involving an advance commitment of capital called by the general partner as needed and distributions of capital and return on invested capital as underlying strategies are concluded during the life of the partnership. There is 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, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in thousands)	
Private equity	$ 1,295,654	$ 1,326,341
Real estate	1,176,080	1,026,564
Absolute return	797,173	845,500
Energy	801,001	806,915
Venture capital	959,906	936,567
	$ 5,029,814	$ 4,941,887

Note 2--Cash and Investments--Continued

The University's limited partnership investments are diversified in terms of manager selection and industry and geographic focus. At June 30, 2012 and 2011, no individual partnership investment represented 5 percent or more of total investments. The University's committed but unpaid obligation to these limited partnerships is further discussed in Note 13.

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

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

Foreign exchange risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The value of the University's non-U.S. dollar holdings net of outstanding forward foreign exchange contracts totaled $993,456,000, or 11 percent of total investments at June 30, 2012, and $1,224,168,000, or 13 percent of total investments at June 30, 2011. Non-U.S. dollar exposures are summarized as follows:

	2012	2011
	(in thousands)	
Euros	$ 554,088	$ 642,096
British pounds sterling	152,504	175,837
Canadian dollar	79,117	104,274
Japanese yen	51,082	60,682
Other	156,665	241,279
	$ 993,456	$ 1,224,168

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.

Note 2--Cash and Investments--Continued

The Daily and Monthly Portfolios held positions in bond futures at June 30, 2012 and 2011. Bond futures are used to adjust the duration of cash equivalents and the fixed income portion of the portfolios. To meet trading margin requirements, the University had U.S. government securities and cash with a fair value of $2,389,000 and $5,016,000 at June 30, 2012 and 2011, respectively, on deposit with its futures contract broker as collateral.

The Long Term Portfolio and the Monthly Portfolio participate in a short-term, fully collateralized, securities lending program administered by the University's master custodian. Together, the Portfolios had $51,987,000 and $103,622,000 in securities loans outstanding at June 30, 2012 and 2011, 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, 2012, collateral of $54,300,000 (104 percent of securities on loan) includes invested cash of $47,200,000 and University payables of $7,100,000, while at June 30, 2011, collateral of $107,900,000 (104 percent of securities on loan) includes invested cash of $100,600,000, University payables of $7,100,000 and U.S. government securities of $200,000. Cash collateral held by the University's lending agent, along with the offsetting liability to return the collateral at loan termination, are recorded in the statement of net assets. Neither the University nor its securities lending agent has the ability to pledge or sell securities received as collateral unless a borrower defaults; accordingly, noncash collateral is not recorded in the statement of net assets. 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, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in thousands)	
Patient care	$ 529,079	$ 430,378
Sponsored programs	84,303	80,997
State educational appropriations	55,924	65,796
Student accounts	23,482	22,858
Other	36,750	40,234
	729,538	640,263
Less provision for uncollectible accounts receivable	234,751	187,652
	$ 494,787	$ 452,611

Note 4--Notes and Pledges Receivable

The composition of notes and pledges receivable at June 30, 2012 and 2011 is summarized as follows:

	2012	2011
	(in thousands)	
Notes:		
Federal student loan programs	$ 87,628	$ 89,271
University student loan funds	19,916	21,012
Other	537	542
	108,081	110,825
Less allowance for doubtfully collectible notes	3,100	3,100
Total notes receivable, net	104,981	107,725
Gift pledges outstanding:		
Capital	91,054	102,246
Operations	73,896	60,680
	164,950	162,926
Less:		
Allowance for doubtfully collectible pledges	11,303	9,643
Unamortized discount to present value	2,383	8,063
Total pledges receivable, net	151,264	145,220
Total notes and pledges receivable, net	256,245	252,945
Less current portion	59,553	58,586
	$ 196,692	$ 194,359

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, 2012 are expected to be received in the following years ended June 30 (in thousands):

2013	$ 48,717
2014	37,770
2015	33,956
2016	17,302
2017	10,088
2018 and after	17,117
	$ 164,950

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 $57,642,000 and $59,374,000 at June 30, 2012 and 2011, 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, 2012 and 2011 is summarized as follows:

	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

	2011			
	Beginning Balance	Additions	Retirements	Ending Balance
	(in thousands)			
Land	$ 93,964	$ 401		$ 94,365
Land improvements	102,274	4,961	$ 386	106,849
Infrastructure	213,772	3,819		217,591
Buildings	5,862,797	224,893	65,719	6,021,971
Construction in progress	545,595	279,312		824,907
Property held for future use	84,339	(30,516)		53,823
Equipment	1,623,287	128,267	122,840	1,628,714
Library materials	449,842	23,572		473,414
	8,975,870	634,709	188,945	9,421,634
Less accumulated depreciation	4,019,413	390,071	181,023	4,228,461
	$ 4,956,457	$ 244,638	$ 7,922	$ 5,193,173

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. The increase in construction in progress of $279,312,000 in 2011 represents the amount of capital expenditures for new projects of $562,924,000 net of capital assets placed in service of $283,612,000. Interest of $6,073,000 and $17,599,000 was capitalized in 2012 and 2011, respectively.

Property held for future use represents the unoccupied portion of the North Campus Research Complex. The University acquired this property in June 2009 for $114,029,000, including liabilities assumed in the purchase. During 2012 and 2011, $6,750,000 and $30,516,000, respectively, of the property was placed in service.

Note 6--Long-term Debt

Long-term debt at June 30, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in thousands)	
Commercial Paper:		
Tax-exempt, variable rate (.15%)*	$ 57,575	$ 85,450
Taxable, variable rate (.16%)*	5,370	5,740
General Revenue Bonds:		
Series 2012A, variable rate (.14%)* through 2036	50,000	
Series 2012B, variable rate (.14%)* through 2042	65,000	
Series 2012C, 2.00% to 5.00% through 2017	89,605	
unamortized premium	13,802	
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	178,820	183,240
unamortized premium	14,363	15,997
Series 2010D, taxable-Build America Bonds, 1.051% to 5.333% through 2041	212,345	212,345
Series 2010E, 5.000% through 2012		7,200
unamortized premium		324
Series 2009A, 3.00% to 5.00% through 2029	86,680	91,020
Series 2009B, variable rate (.15%) through 2039	118,710	118,710
unamortized premium	6,724	7,189
Series 2009D, taxable-Build America Bonds, 5.155% to 6.172% through 2030	89,815	89,815
Series 2008A, variable rate (.15%)* through 2038	105,810	105,810
Series 2008B, variable rate (.13%)* to fixed via swap through 2026 and variable rate 2027 through 2028	106,665	111,865
Series 2005A, 5.00% through 2018	17,560	22,060
unamortized premium	704	1,054
unamortized loss on extinguishment	(72)	(118)
Series 2002, variable rate (.16%)* to fixed via swap through 2018 and variable rate 2019 through 2032	95,035	100,715
General Revenue Refunding Bonds:		
Series 2003, 3.50% to 5.00% through 2015	6,745	11,825
unamortized premium	118	310
unamortized loss on extinguishment	(18)	(51)
Hospital Revenue Bonds:		
Series 2007A, variable rate (.16%)* through 2038	26,195	26,195
Series 2007B, variable rate (.14%)* through 2038	44,310	44,310
Series 2005A, variable rate (.14%)* through 2036	69,315	69,315
Series 2005B, variable rate (.15%)* to fixed via swap through 2026	61,900	65,360
Hospital Revenue Refunding Bonds:		
Series 2002A, 5.00% to 5.25% through 2022	35,015	45,990
unamortized premium	213	405
unamortized loss on extinguishment	(1,251)	(1,482)
Series 1998A-2, variable rate (.14%)* to fixed via swap through 2025	44,670	44,670
Medical Service Plan Revenue Bonds:		
Series 1995A, variable rate (.16%)* through 2028	26,200	26,200
Series 1991, 7.05% capital appreciation through 2012		2,120
Medical Service Plan Revenue Refunding Bonds:		
Series 1998A-1, variable rate (.14%)* to fixed via swap through 2022	33,595	33,980
Housing Energy Conservation HUD Loan, 3.00% through 2021	1,636	1,792
	1,826,264	1,692,465
Less:		
Commercial paper and current portion of bonds payable	135,193	147,553
Long-term bonds payable subject to remarketing, net	482,202	274,895
	$ 1,208,869	$ 1,270,017

*Denotes variable rate at June 30, 2012

Note 6--Long-term Debt--Continued

The variable rate portions of bonds payable have remarketing features which allow bondholders to put debt back to the University. Accordingly, variable rate bonds payable are classified as current unless supported by long-term liquidity agreements, such as lines of credit or standby bond purchase agreements, which can refinance the debt on a long-term basis. The classification of the University's variable rate bonds payable at June 30, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in thousands)	
Variable rate bonds payable subject to remarketing	$ 847,405	$ 747,130
Less:		
Current principal maturities	17,635	14,725
Long-term liquidity agreements:		
Unsecured line of credit	150,000	150,000
Standby bond purchase agreements	197,568	307,510
Long-term bonds payable subject to remarketing, net	$ 482,202	$ 274,895

The University's available line of credit and standby bond purchase agreements which expire beyond one year, between July 2013 and July 2015, were entirely unused at June 30, 2012. In addition, the University has a $106,000,000 standby bond purchase agreement which expires in March 2013 that was also entirely unused at June 30, 2012.

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, 2012 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
		(in thousands)		
Commercial Paper:				
General revenues	$ 91,190	$ 107,530	$ 135,775	$ 62,945
Bonds and Notes:				
General revenues	1,242,420	219,200	40,099	1,421,521
Hospital revenues	294,763		14,396	280,367
Faculty Group Practice revenues	62,300	75	2,580	59,795
Student residences revenues	1,792		156	1,636
	$ 1,692,465	$ 326,805	$ 193,006	$ 1,826,264

The University maintains a combination of variable and fixed rate debt, with effective interest rates that averaged approximately 2.3 percent and 2.5 percent in 2012 and 2011, 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 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).

During 2011, the University issued $219,545,000 of General Revenue Bonds with a net original issue premium of $452,000. Total bond proceeds of $219,997,000 were utilized to provide $218,757,000 for capital projects and $1,240,000 for debt issuance costs. General Revenue Bonds issued in 2011 include $212,345,000 of fixed rate taxable Build America Bonds (Series 2010D) and $7,200,000 of fixed rate tax-exempt bonds (Series 2010E).

Note 6--Long-term Debt--Continued

Debt obligations are generally callable by the University and mature at various dates through fiscal 2042. 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
2013	$ 130,526	$ 43,006	$ 173,532
2014	55,616	41,674	97,290
2015	56,696	40,423	97,119
2016	52,931	39,100	92,031
2017	117,491	37,729	155,220
2018-2022	264,881	151,429	416,310
2023-2027	313,110	111,855	424,965
2028-2032	306,075	64,655	370,730
2033-2037	322,010	36,718	358,728
2038-2042	172,345	9,769	182,114
	1,791,681	$ 576,358	$ 2,368,039
Plus unamortized premiums, net	34,583		
	$ 1,826,264		

* Interest on variable rate debt is estimated based on rates in effect at June 30, 2012; 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 2013 would increase to $612,728,000, total principal payments due in 2014 would increase to $298,154,000, total principal payments due in 2015 would increase to $95,076,000 and total principal payments due in 2016 would increase to be $61,901,000. Accordingly, principal payments due in subsequent years would be reduced to $96,541,000 in 2017; $162,521,000 in 2018 through 2022; $170,300,000 in 2023 through 2027; $130,305,000 in 2028 through 2032; $89,805,000 in 2033 through 2037; and $74,350,000 in 2038 through 2042. 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 assets 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 assets. For all other derivative instruments, changes in fair value are reported as net investment income (loss).

Derivative instruments held by the University at June 30, 2012 and 2011 are summarized as follows:

	2012		2011	
	Notional Amount	Fair Value	Notional Amount	Fair Value
	(in thousands)			
Investment Derivative Instruments:				
Investment portfolios:				
Futures	$ 352,820	$ 186	$ 393,232	$ 54
Foreign currency forwards	557,644	(4,844)	772,286	2,085
Other	87,019	314	81,045	(198)
	$ 997,483	$ (4,344)	$ 1,246,563	$ 1,941
Floating-to-fixed interest rate swap on debt	$ 40,405	$ (3,600)	$ 46,085	$ (2,468)
Effective Cash Flow Hedges:				
Floating-to-fixed interest rate swaps on debt	$ 230,115	$ (44,869)	$ 239,160	$ (28,612)

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, total return swaps and forward security purchase or sale commitments and are 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 represents the estimated amount that the University would pay to terminate the swap agreements at the statement of net assets date, taking into account current interest rates and creditworthiness of the underlying counterparty. The notional amount represents the underlying reference of the instrument and does not represent the amount of the University's settlement obligations.

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, 2012 and 2011, the fair value of floating-to-fixed interest rate swaps associated with the University's variable rate debt is a liability of $48,469,000 and $31,080,000, respectively, and is included in the statement of net assets as part of noncurrent other liabilities. The majority of the University's interest rate swaps qualify as effective hedges as defined by GASB Statement No. 53. The corresponding deferred asset for the fair value of swaps deemed effective cash flow hedges totaled $44,869,000 and $28,612,000, at June 30, 2012 and 2011, respectively, and is included in the statement of net assets as part of noncurrent other assets.

The change in fair value of derivative instruments, which includes realized gains and losses on positions closed, for the years ended June 30, 2012 and 2011 is summarized as follows:

	2012	**2011**
	(in thousands)	
Investment Derivative Instruments:		
Investment portfolios:		
Futures	$ 18,998	$ 12,026
Foreign currency forwards	(1,198)	3,378
Other	(1,679)	762
	$ 16,121	$ 16,166
Floating-to-fixed interest rate swap on debt	$ (1,132)	$ 798
Effective Cash Flow Hedges:		
Floating-to-fixed interest rate swaps on debt	$ (16,257)	$ 4,046

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 $89,950,000 and $95,150,000 at June 30, 2012 and 2011, 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, 2012 and 2011 and has a fair value of ($13,610,000) and ($7,607,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2005B Hospital Revenue Bonds has a notional amount of $61,900,000 and $65,360,000 at June 30, 2012 and 2011, respectively, tied to the outstanding balance of the bonds. Effective from December 1, 2005, the University makes payments based on a fixed rate of 3.229 percent and receives variable rate payments from the swap counterparty based on 68 percent of the One-Month USD LIBOR, until the bonds mature in December 2025. The University has the option to terminate the swap upon five business day written notice and payment of the fair market compensation for the value of the swap. This swap is considered an effective hedge at June 30, 2012 and 2011 and has a fair value of ($9,365,000) and ($5,404,000), respectively.

The floating-to-fixed interest rate swap associated with the Series 2002 General Revenue Bonds has a notional amount of $40,405,000 and $46,085,000 at June 30, 2012 and 2011, 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, 2012 and 2011 and has a fair value of ($3,600,000) and ($2,468,000), 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, 2012 and 2011 tied to the outstanding balance of the bonds. Effective from May 14, 1998, the University makes payments based on a fixed rate of 4.705 percent and receives variable rate payments from the swap counterparty based on the floating Securities Industry and Financial Markets Association (SIFMA) Municipal Index through the final maturity dates of the underlying bonds in December 2024. The counterparty has the option of terminating the swaps if for any 180-day period the average variable rate is more than 7.0 percent. This swap is considered an effective hedge at June 30, 2012 and 2011 and has a fair value of ($15,416,000) and ($10,218,000), 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 $33,595,000 and $33,980,000 at June 30, 2012 and 2011, respectively, tied to the outstanding balance of the bonds. Effective from May 14, 1998, the University makes payments based on a fixed rate of 4.685 percent and receives variable rate payments based on the floating 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, 2012 and 2011 and has a fair value of ($6,478,000) and ($5,383,000), respectively.

Using rates in effect at June 30, 2012, 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)			
2013	$ 11,680	$ 334	$ 7,890	$ 19,904
2014	12,155	318	7,504	19,977
2015	12,665	300	7,091	20,056
2016	13,195	283	6,669	20,147
2017	13,760	264	6,201	20,225
2018-2022	72,710	1,026	23,892	97,628
2023-2026	102,120	341	5,543	108,004
	$ 238,285	$ 2,866	$ 64,790	$ 305,941

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 required to post collateral for certain floating-to-fixed interest rate swaps if the fair value of the swap reaches a minimum threshold. Based on the University's current credit ratings, the thresholds are $26,000,000 for the swap associated with the Series 1998A-2 Hospital Revenue Refunding Bonds, $27,000,000 for the swap associated with the Series 2005B Hospital Revenue Bonds and $7,000,000 for the swap associated with the Series 1998A-1 Medical Service Plan Revenue Refunding Bonds. There are no collateral requirements for the other two swaps. During 2012, the University was required to post collateral of up to $1,200,000 for a significant part of the year for the interest rate swap associated with the Series 1998A-1 Medical Service Plan Revenue Refunding Bonds. During 2011, the University was required to post collateral of $1,061,000 for less than 90 days for the interest rate swap associated with the Series 1998A-1 Medical Service Plan Revenue Refunding Bonds. At June 30, 2012, the University had $1,200,000 of posted collateral outstanding.

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, 2012 and 2011 are summarized as follows:

	2012	**2011**
	(in thousands)	
Balance, beginning of year	$ 165,876	$ 155,272
Claims incurred and changes in estimates	464,826	427,272
Claim payments	(443,726)	(416,668)
Balance, end of year	186,976	165,876
Less current portion	84,155	72,539
	$ 102,821	$ 93,337

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 36,000 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 assets will differ from the actuarial accrued liability by the unamortized portion of changes in actuarial assumptions, plan design and experience gains and losses. At June 30, 2012, the recorded liability for net postemployment benefits obligations and the actuarial accrued liability totaled $1,671,564,000 and $1,269,091,000, respectively.

Note 9--Postemployment Benefits--Continued

Changes in the total reported liability for postemployment benefits obligations for the years ended June 30, 2012 and 2011 are summarized as follows:

	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 net 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

	2011		
	Retiree Health and Welfare	Long-term Disability (in thousands)	Total
Balance, beginning of year	$ 1,468,563	$ 139,545	$ 1,608,108
Service cost	40,808	2,791	43,599
Amortization of assumption changes, plan changes and actuarial gains	(63,307)	(405)	(63,712)
Interest cost	89,289	10,997	100,286
Payments of current premiums and claims	(36,958)	(14,671)	(51,629)
Balance, end of year	1,498,395	138,257	1,636,652
Less current portion	41,142	12,496	53,638
	$ 1,457,253	$ 125,761	$ 1,583,014

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 $262,905,000 of actuarial accrued liability at June 30, 2012 and $239,012,000 at June 30, 2011. In accordance with GASB Statement No. 45, the University's liability for postemployment benefit obligations at June 30, 2012 is not reduced by the anticipated Medicare Retiree Drug Subsidy for future periods of approximately $176,000,000 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 $110,210,000 and $102,158,000 at June 30, 2012 and 2011, 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, 2012, 2011 and 2010 as a percentage of covered payroll of $2,826,760,000, $2,665,924,000 and $2,551,273,000, was 59, 61 and 63 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, 2012 and 2011 are as follows:

	2012	
	Retiree Health and Welfare	Long-term Disability
Discount Rate	6.08%	7.88%
Inflation Rate	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)

	2011	
	Retiree Health and Welfare	Long-term Disability
Discount Rate	6.08%	7.88%
Inflation Rate	3.0%	3.0%
Immediate/Ultimate Medical Trend Rate	7.0%-7.5%/5.0%	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. Effective January 1, 2010, the University contribution commences after an employee has completed one year of employment. Participants may elect to contribute additional amounts to the plans within specified limits that are not matched by University contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the three years ended June 30, 2012 are summarized as follows:

	2012	**2011**	**2010**
		(in thousands)	
University contributions	$ 226,517	$ 214,905	$ 215,905
Employee contributions	$ 117,127	$ 108,981	$ 106,389
Payroll covered under plan	$ 2,826,760	$ 2,665,924	$ 2,551,273
Total payroll	$ 2,963,848	$ 2,802,045	$ 2,698,219

Note 11--Net Assets

The composition of net assets at June 30, 2012 and 2011 is summarized as follows:

	2012	2011
	(in thousands)	
Invested in capital assets, net of related debt	$ 3,597,540	$ 3,574,878
Restricted:		
Nonexpendable:		
Permanent endowment corpus	1,345,859	1,279,058
Expendable:		
Net appreciation of permanent endowments	1,193,281	1,312,282
Funds functioning as endowment	1,597,480	1,652,381
Restricted for operations and other	492,878	502,569
Unrestricted	2,526,159	2,603,094
	$ 10,753,197	$ 10,924,262

Unrestricted net assets, as defined by GASB, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. For example, unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents. All of the unrestricted net assets, which totaled $2,526,159,000 and $2,603,094,000 at June 30, 2012 and 2011, respectively, have been designated for academic and research programs and initiatives and capital programs.

Note 12--Federal Direct Lending Program

The University distributed $372,703,000 and $358,981,000 for the years ending June 30, 2012 and 2011, respectively, for student loans through the U.S. Department of Education ("DoED") federal direct lending program. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements. The statement of net assets includes a receivable of $1,364,000 and $624,000 at June 30, 2012 and 2011, 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, 2012 were $780,104,000. Of these expenditures, approximately $728,547,000 will be funded by internal sources, gifts, grants and future borrowings and the remaining $51,557,000 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, energy and absolute return strategies. As of June 30, 2012, the University had committed, but not paid, a total of $2,003,690,000 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):

2013	$ 393,449
2014	472,216
2015	421,277
2016	301,679
2017	214,422
2018 and beyond	200,647
	$ 2,003,690

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):

2013	$ 31,363
2014	23,293
2015	18,629
2016	9,890
2017	5,893
2018-2022	11,108
2023-2027	2,129
	$ 102,305

Operating lease expenses totaled $32,856,000 and $33,529,000 in 2012 and 2011, 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--Segment Information

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

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

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

Note 14--Segment Information--Continued

Condensed financial information for HHC, before the elimination of certain intra-University transactions, as of and for the years ended June 30, 2012 and 2011 is as follows:

	2012	2011
	(in thousands)	
Condensed Statement of Net Assets		
Assets:		
Current assets	$ 321,394	$ 357,509
Noncurrent assets	2,812,436	2,793,939
Total assets	$ 3,133,830	$ 3,151,448
Liabilities:		
Current liabilities	$ 284,049	$ 292,503
Noncurrent liabilities	1,214,345	1,108,267
Total liabilities	1,498,394	1,400,770
Net assets:		
Invested in capital assets, net of related debt	675,615	702,096
Restricted:		
Nonexpendable	3,386	2,899
Expendable	100,521	100,672
Unrestricted	855,914	945,011
Total net assets	1,635,436	1,750,678
Total liabilities and net assets	$ 3,133,830	$ 3,151,448
Condensed Statement of Revenues, Expenses and Changes in Net Assets		
Operating revenues	$ 2,139,229	$ 1,990,214
Operating expenses other than depreciation expense	(1,963,732)	(1,793,016)
Depreciation expense	(186,631)	(144,238)
Operating (loss) income	(11,134)	52,960
Nonoperating revenues, net	1,246	198,307
Net (loss) income before transfers	(9,888)	251,267
Transfers to other University units, net	(105,354)	(102,405)
(Decrease) increase in net assets	(115,242)	148,862
Net assets, beginning of year	1,750,678	1,601,816
Net assets, end of year	$ 1,635,436	$ 1,750,678
Condensed Statement of Cash Flows		
Net cash provided by operating activities	$ 140,047	$ 201,706
Net cash provided by investing activities	73,484	31,529
Net cash used in capital and related financing activities	(189,802)	(168,976)
Net cash used in noncapital financing activities	(100,180)	(99,263)
Net decrease in cash and cash equivalents	(76,451)	(35,004)
Cash and cash equivalents, beginning of year	120,811	155,815
Cash and cash equivalents, end of year	$ 44,360	$ 120,811

Note 15--Operating Expenses by Function

Operating expenses by functional classification for the years ended June 30, 2012 and 2011 are summarized as follows:

	2012				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	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

	2011				
	Compensation and Benefits	Supplies and Services	Depreciation (in thousands)	Scholarships and Fellowships	Total
Instruction	$ 746,347	$ 106,790			$ 853,137
Research	486,677	246,847			733,524
Public service	86,891	44,597			131,488
Academic support	183,866	37,150			221,016
Student services	66,669	18,478			85,147
Institutional support	130,979	49,194			180,173
Operations and maintenance of plant	39,142	236,149			275,291
Auxiliary enterprises	1,893,194	560,446			2,453,640
Depreciation			$ 390,071		390,071
Scholarships and fellowships				$ 114,316	114,316
	$ 3,633,765	$ 1,299,651	$ 390,071	$ 114,316	$ 5,437,803

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

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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 the $53,510,000 Regents of the University of Michigan General Revenue Bonds, Series 2013A, issued pursuant to the Trust Agreement.

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 2013A 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 2013A 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, 2013.

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 Bonds to be includible in the gross income of the owners of such 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 and the Series 2012F 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.

Prior Notes means the portion of the Issuer's Commercial Paper Notes, Series E and Commercial Paper Notes, Series I being refunded with a portion of the proceeds of the Bonds as described in the Official Statement under the caption "PLAN OF REFUNDING."

Projects means the capital projects described in the Trust Agreement being financed in whole or in part with the proceeds of the Bonds.

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 November 15, 2012, 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 unit of The McGraw-Hill Companies, and its successors and assigns.

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. Bonds designated as "General Revenue Bonds, Series 2013A" are authorized to be issued pursuant to the provisions of the Trust Agreement in the aggregate principal amount of Fifty-Three Million Five Hundred Ten Thousand Dollars ($53,510,000). The Bonds 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. The net proceeds of the Bonds shall be received by the Issuer and transferred or deposited by the Issuer on the date of the delivery thereof to the Bond Proceeds Fund. 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 and interest on the Bonds and the Issuer's obligations under the Trust Agreement, the Issuer 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 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 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 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 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 Bonds shall be deposited in the Bond Proceeds Fund and shall be used for the following purposes:

(a) To pay the cost of the acquisition, construction, furnishing, and equipping of the Projects, including interest on the portion of the Bonds allocated to the Projects accruing prior to the completion of the Projects, or to reimburse the Issuer for previously incurred costs of the Projects;

(b) To refund the Prior Notes, on a date or dates as shall be determined by an Authorized Officer; provided, however, that the refunding of the Prior Notes must be accomplished within ninety (90) days of the Original Issue Date of the Bonds; and

(c) To pay certain costs incurred in connection with the issuance and sale of the Bonds and the refunding of the Prior Notes.

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 Projects, 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. Moneys held for the credit 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 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 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 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 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 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 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 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 affect 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 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:

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

Second - 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.

APPENDIX C

FORM OF BOND COUNSEL OPINION

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Form of Approving Opinion

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 2013A in the aggregate principal amount of $53,510,000 (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 November 15, 2012 (the "Resolution") and a Trust Agreement, dated as of March 1, 2013 (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, paying part of the cost of refunding certain outstanding indebtedness of the Issuer, and paying costs incidental to the issuance of the Bonds and the refunding. 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 relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

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 $53,510,000 Regents of the University of Michigan General Revenue Bonds, Series 2013A (the "Bonds") authorized under a resolution adopted by the Regents of the University of Michigan (the "Issuer"), and a Trust Agreement, dated as of March 1, 2013 (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, 2013.

(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	9
Total Enrollment	19
Student Enrollment	20
Student Admissions	20
Tuition and Fees	21
Student Financial Aid	24
The University of Michigan Hospitals and Health Centers (UMHHC) – Statement of Revenues, Expenses and Changes in Net Assets	26
UMHCC – Summary of Patient Activity Statistics	26
The University Endowment Funds	27

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: March 21, 2013

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 2013A

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