2006 Annual Report

University of Minnesota
Driven to Discover

Dear Friend of the University

It's an exciting time to be part of the University of Minnesota community.

We've completed the second year of a sweeping strategic positioning and planning process that is transforming the quality and responsiveness of the University. Management guru Peter Drucker once quipped, "Everything worthwhile ultimately deteriorates into hard work." I'm pleased to report that the people of this great university responded to the high aspirations we set together for our institution with enthusiasm, thoughtfulness, and, yes, a great deal of hard work.

Together, we're making demanding changes to provide an extraordinary education for every student and raise the University's academic profile. We are transforming the U to be able to respond even better to the critical problems facing our society.

The people of the University of Minnesota today are driven to discover, just as our predecessors have been for the past 155 years. In this report, you'll see the variety of ways in which the University is preparing to meet the future in a higher education environment that is increasingly competitive for talent and resources across the globe.

You'll learn how we're investing in our many academic strengths and building on our comparative advantages in fields as varied as nanotechnology, cancer research, theater, and education. And we're encouraging new ways for top scholars to work across their academic disciplines to address complex, real-world problems, including our planned Institute on the Environment, which will harness an array of innovative environmental work taking place across our campuses and research facilities.

You'll sense our pride in innovative programs that continue the University's legacy of access to a high quality education for people from all walks of life, including our Founders Opportunity Scholarship, which is providing a significant financial step-up for thousands of low- and moderate-income undergraduates, and a successful Promise of Tomorrow scholarship fund-raising drive that now benefits 1,800 more students than when we launched it in 2003.

You'll also learn how we're working to improve every facet of our administrative and service functions, including how we conserve energy, orient new employees, provide Facilities Management services to the University community, and even how we sell tickets to University cultural and athletic events. The University of Minnesota is judged primarily by the quality of its education, research, and outreach programs, but I strongly believe we cannot succeed in these realms without serious attention to issues of productivity and resource management.

Please join me in celebrating the University's successful past year and its readiness for an even more dynamic future.

Sincerely,

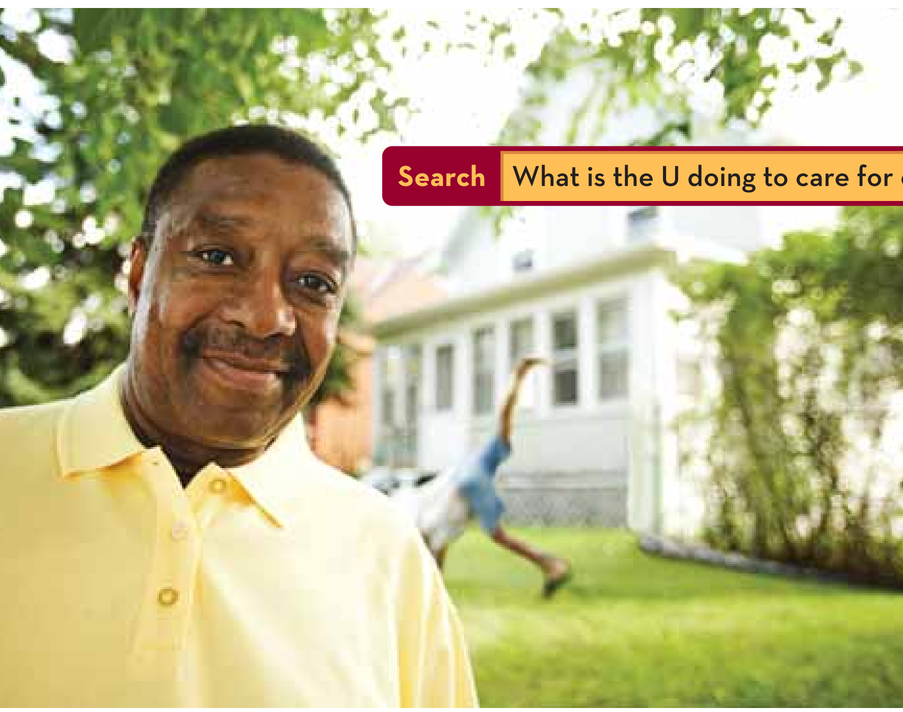
Robert H. Bruininks

Robert H. Bruininks
President

Transforming the U

In today's competitive world of higher education, standing still means falling behind. More than two years ago, the University looked at the challenges it faced as a public research university. It saw that money allocated for higher education was shrinking; that competition for the best students, staff, and faculty was growing; and that research funding was increasingly going to institutions engaged in collaborative, multidisciplinary work. The University could not stay on its present course and thrive.

So with the Board of Regents' blessing, the University went to work to "Transform the U" from top to bottom—to chart a course that will place the University of Minnesota among the top three public research universities in the world within a decade. Over the past year, 34 task forces and several more committees—made up of more than 400 people from the University and the greater community—developed recommendations designed to move the U to the next level of distinction.



Specifically, each task force was asked to create recommendations for how to develop:

- *Exceptional students*—Recruit, educate, challenge, and graduate outstanding students who become highly motivated lifelong learners, leaders, and global citizens.
- *Exceptional faculty and staff*—Recruit, reward, and retain energetic and creative faculty and staff who are committed to the highest standards of excellence.
- *Exceptional organization*—Create a culture that is focused on service, driven by performance, and known as the best among its peers.
- *Exceptional innovation*—Inspire exploration of new ideas and breakthrough discoveries that address the critical problems and needs of the University, state, nation, and world.

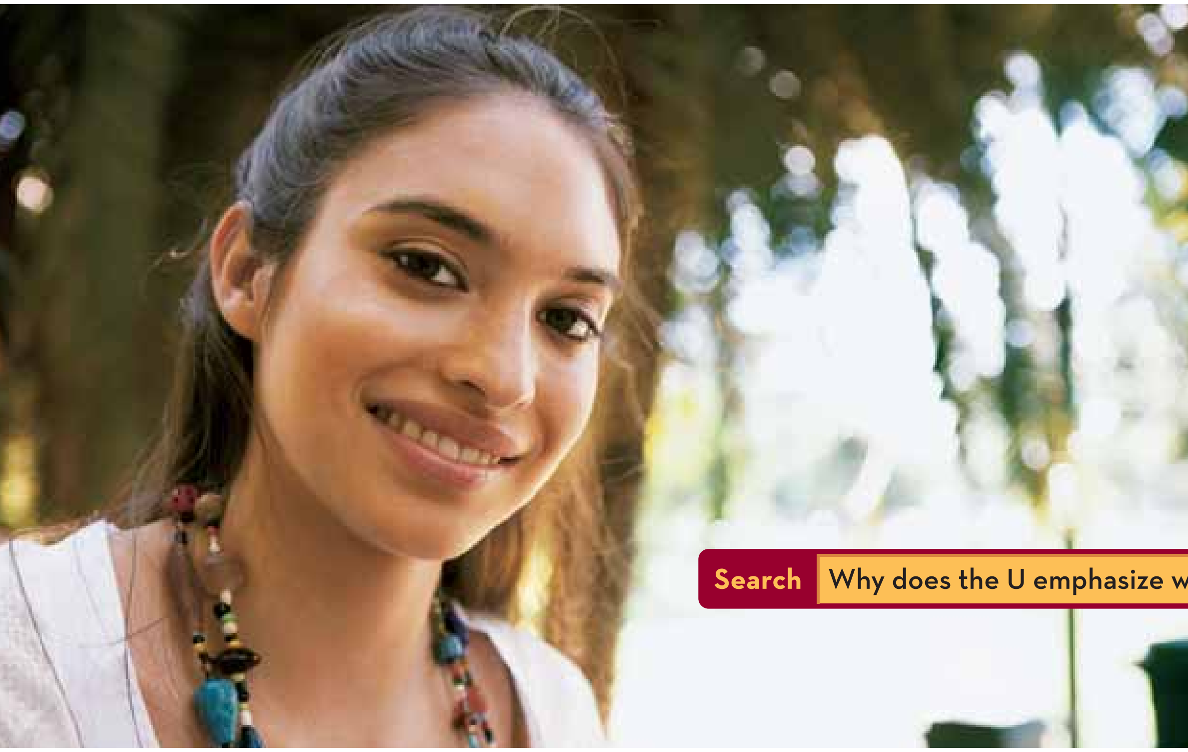
Search Results

For almost every environmental threat facing our planet, there are researchers and programs at the University of Minnesota dedicated to finding practical and innovative solutions. For example, University researchers are using bacteria to clean contaminated soil and generate electricity, turning soybeans into fuel, and demonstrating how to harness wind energy on a community level. The University is in the process of creating a new Institute on the Environment to coordinate its formidable environmental expertise across all of its campuses and outreach and research locations. In addition to providing more opportunities for students, bringing the University's environmental experts closer together will help trigger even greater discoveries and further enhance the University's reputation as an environmental leader. As part of its mission to foster research, the institute will form small teams to tackle real-world problems of global and regional significance.

The initiative to transform the University has been described as the most far-reaching and comprehensive in the University's history—perhaps in the history of any university. It has won widespread support within the greater community and, as University leaders work to implement task force recommendations and identify key transformational initiatives, there's a buzz on campus that this very good university is now on its way to becoming great.

University on the move

A major step in the University's plan to become one of the top three public research universities in the world was the creation of three innovative new colleges on the Twin



Search Why does the U emphasize writing?

Cities campus. On July 1, 2006, the University welcomed the College of Design; the College of Education and Human Development; and the College of Food, Agricultural and Natural Resource Sciences. This is a move designed to increase curriculum quality and selection, lead to more efficient operations, provide fertile ground for collaborative research and teaching, and save an estimated $3 million to $4 million over the next two to three years. The University will reinvest the savings in academic programs.

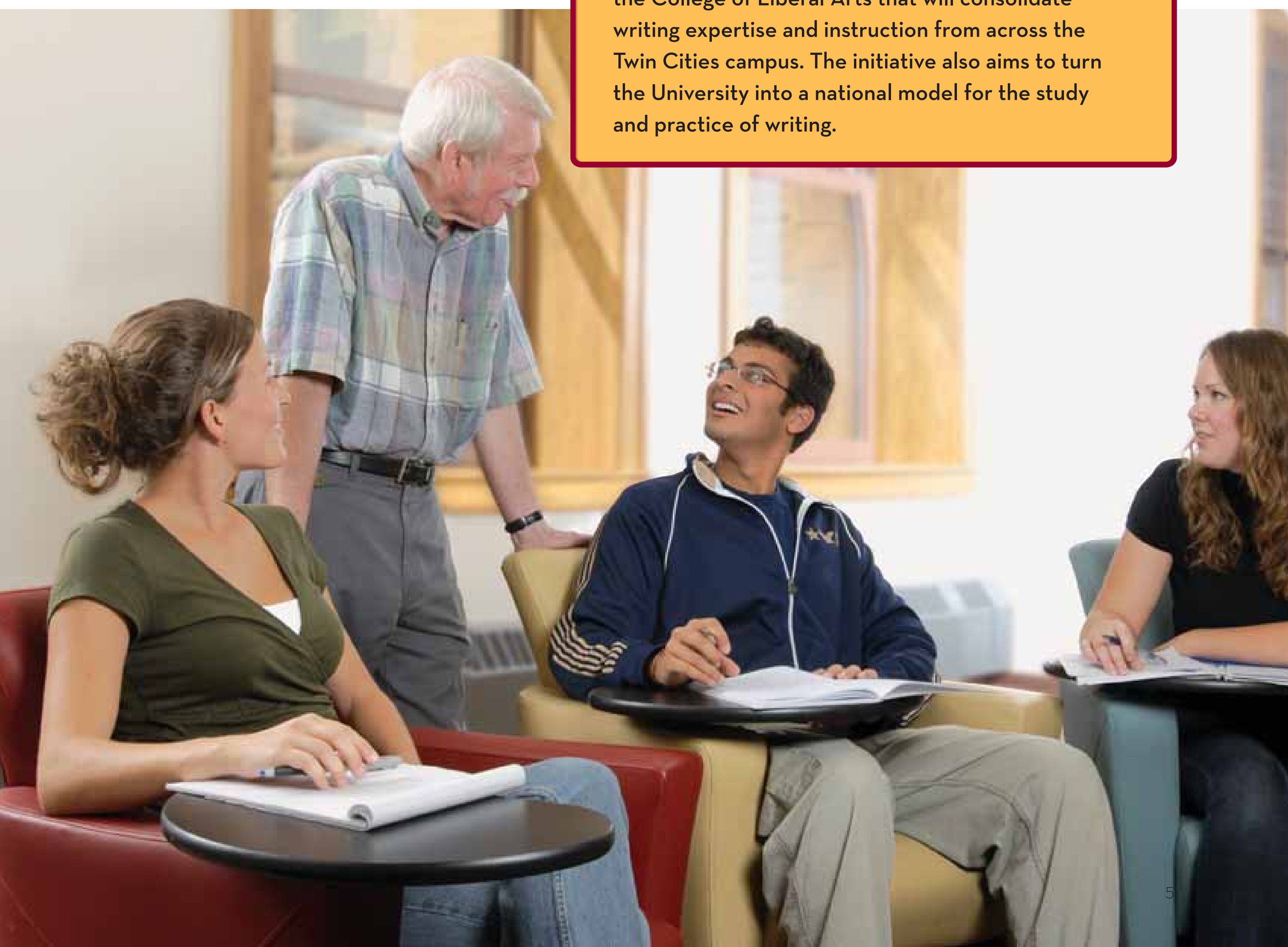
Among the most visible investments is the Baccalaureate Writing Initiative, which will make writing an essential element of every student's education. The vision is to transform University writing instruction into a national model by the fall of 2007.

Plans are also under way to create a Twin Cities campus-wide honors program and develop more consistent academic and career advising as well as faculty-student mentoring. With a new commitment of half a million dollars annually, efforts have been strengthened to recruit students—and faculty—from diverse backgrounds. The University also continues to improve its four-year graduation rates and has set ambitious goals for further improvement by 2012.

Because graduate education is at the heart of any successful research university, and because the University of Minnesota has one of the largest populations of graduate students in the nation (more than 19,000 in fall 2005), more than $8 million will be invested over the current biennium in new fellowship funds and other forms of graduate support. In Minnesota, the University plays a unique role as a public university—functioning as the state's major research institution and providing advanced degrees in areas such as law, medicine, public policy, business, and education. The University of Minnesota also ranks in the nation's top 10 in total number of advanced degrees granted.

Search Results

Graduates of a top university should be able to write clearly in a variety of forms, whether essays, technical reports, film reviews, or novels. To give its graduates the best chance at fulfilling their potential, the University of Minnesota has launched the Baccalaureate Writing Initiative, which will make writing an essential element of every student's education. A major goal of the initiative is to teach students to vary their writing styles and content for different audiences. Its centerpiece is a new department in the College of Liberal Arts that will consolidate writing expertise and instruction from across the Twin Cities campus. The initiative also aims to turn the University into a national model for the study and practice of writing.

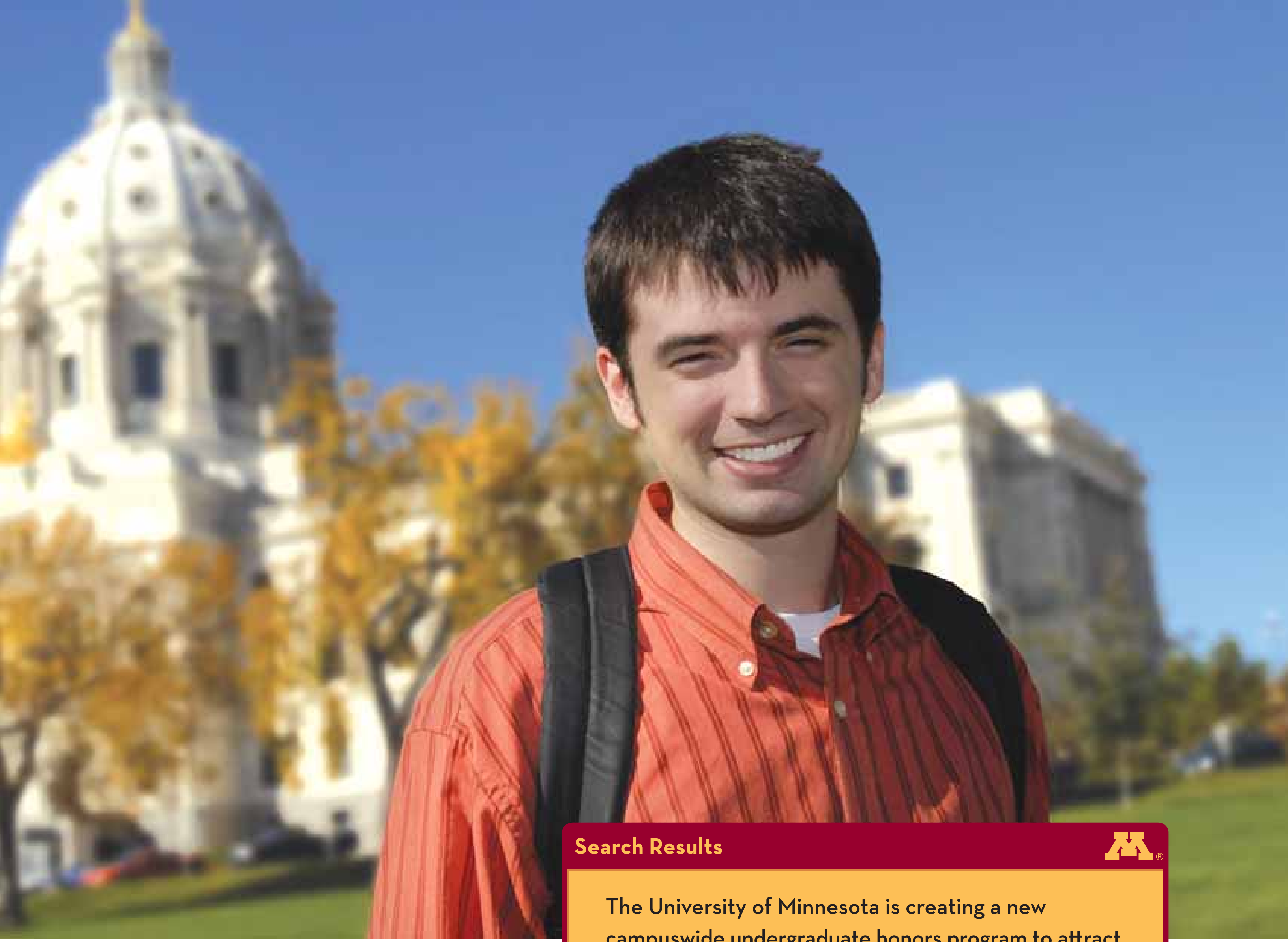


To ensure that the University remains affordable to students from low- and moderate-income families, the University has stepped up fund-raising for scholarships and other financial aid. The Promise of Tomorrow Scholarship Drive, launched in 2003 and the largest in the University's history, reached its goal in October 2006 of raising $150 million. Now 6,700 students are receiving scholarships and fellowships created through private gifts. That's 1,800 more since the drive began three years ago. And the average size of awards has increased by 40 percent.

Search How is the U preparing future leaders?

The Founders Opportunity Program, introduced in 2005, now covers qualified transfer students as well as incoming freshmen. Currently, about 2,000 students qualify for the program. In the next two years, the program is expected to benefit 4,500—with minority students making up about 30 percent of scholarship recipients. Students from Minnesota who start as freshmen and receive Pell grants are eligible for four years of support under the program. Transfer students from Minnesota are eligible for up to two years of support. The Founders Opportunity Program uses state, private, and University funds to match a student's Pell grant and, at a minimum, covers tuition and required fees. Students in the Founders program do not have to borrow to pay their tuition and fees.

A recently implemented internal budget model optimizes the use of University resources and provides incentives for sound financial planning and strong fiscal management. New operational metrics demand greater accountability from the University's central management units and college offices. For the University of Minnesota, being among the best public research universities also means having a reputation for service and business innovation, as well as high quality research, education, and outreach.



Search Results

The University of Minnesota is creating a new campuswide undergraduate honors program to attract high-caliber students and to allow them the freedom to pursue their interests in any one of the undergraduate colleges. The program will offer students cross-disciplinary classes, research, and career opportunities on the Twin Cities campus. Priority admission or fast-track programs, such as Pre-Med Scholars and VetFast, will offer rigorous curricula that challenge even the most accomplished students.

Facilities Management, with its team of mechanics, custodians, and trades people, is moving from an organization that manages buildings to one that tailors services according to specific University and individual needs. The University will also adopt an electronic system that will enable the University community and the general public to purchase their tickets—whether for a concert at Northrop Auditorium or a game in the Sports Pavilion—from a single source. Two years from now, the University's new Enterprise financial System will replace a 15-year-old system at locations across the state, from the Southeast Research and Outreach Center in Waseca to the Crookston campus.

Forging a bright future

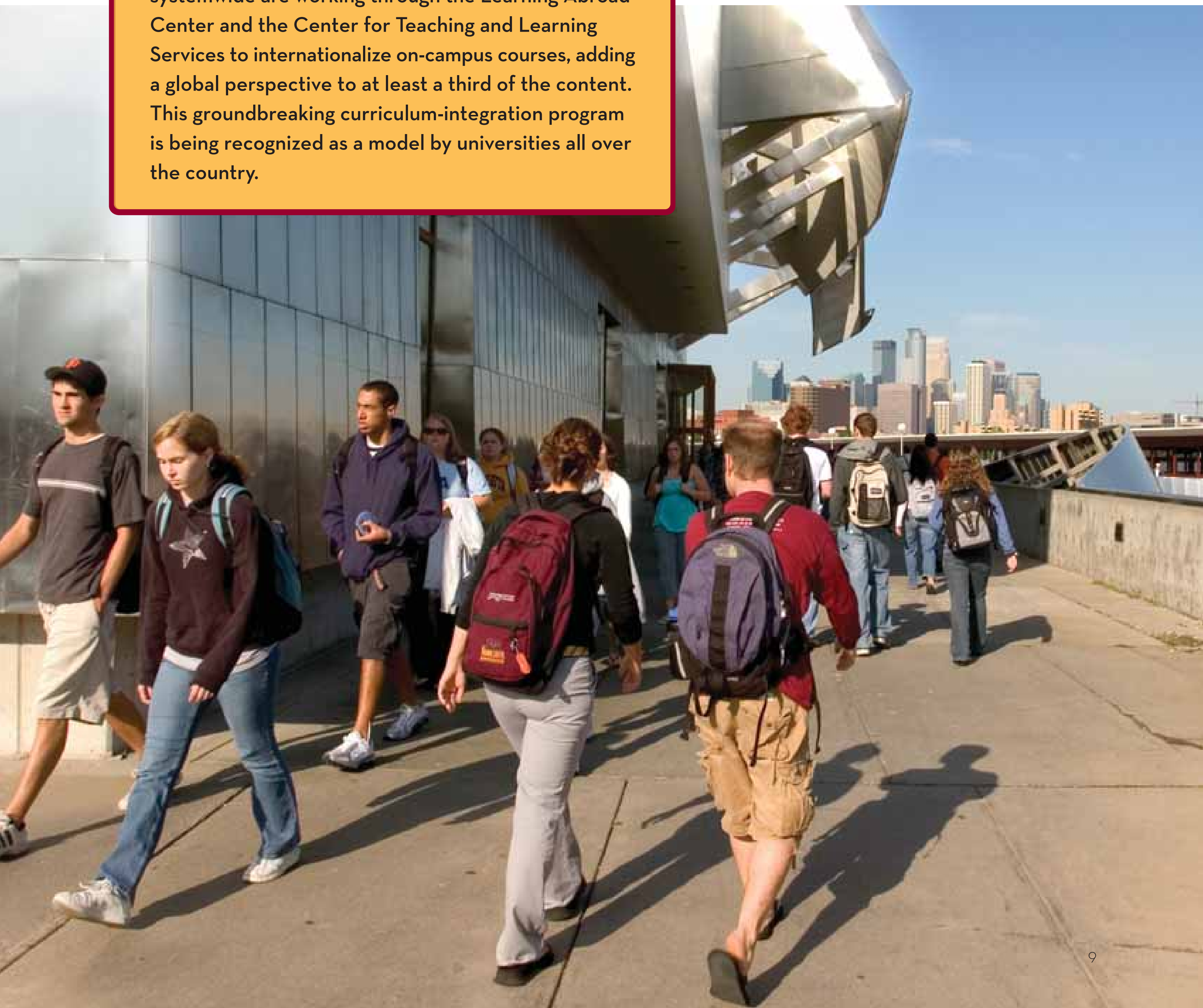
The academic programs and new initiatives mentioned here are just snapshots from a broad landscape. The University is focused on making sure its strengths continue to be connected and aligned with Minnesota's needs. Every day, the University of Minnesota devotes its expertise and goodwill to help make people's lives better. That commitment comes from the compact it forged with the citizens of Minnesota nearly 150 years ago when it became their land-grant university. In return for a gift of resource-rich federal lands, the University envisioned a great future and pledged to make its education widely available, to discover solutions to problems large and small, and to help raise the quality of life for all Minnesotans and for people throughout the world.

Dramatic advancements such as kidney and pancreas transplants and the AIDS drug Ziagen are among the University's most well-known and visible contributions. Another is the Honeycrisp™ apple variety—recently named Minnesota's official state fruit and one of the "25 Innovations That Changed the World." The University's fruit-breeding program accounts for 80 percent of the apples grown in Minnesota and an increasing number of the apples being grown around the world. These examples represent just a fraction of the University's research prowess.

In the past five years alone, the University received 221 patents and helped establish 25 start-up companies. University scholars successfully competed for and secured more than $500 million in sponsored research annually—that's 98 percent of all research funding to higher education in Minnesota. A recent survey found that University alumni have created about 10,000 companies in Minnesota that employ 500,000 people and generate $100 billion in annual revenue.

Search Results

The University of Minnesota created the Office of the Vice President and Provost for Equity and Diversity, which incorporates the Office of Equal Opportunity and Affirmative Action and the units of the former Office for Multicultural and Academic Affairs. In addition to attracting and retaining at the University a student body and faculty that reflect the increasingly multicultural population of Minnesota and beyond, the office is working to become a national model for addressing diversity in higher education. Under another initiative, scores of University faculty systemwide are working through the Learning Abroad Center and the Center for Teaching and Learning Services to internationalize on-campus courses, adding a global perspective to at least a third of the content. This groundbreaking curriculum-integration program is being recognized as a model by universities all over the country.



Nationally, the University ranked fifth in royalties generated, and *New Scientist* magazine named it fourth among all U.S. universities for success in commercializing intellectual property. The recently formed Minnesota Partnership for Biotechnology and Medical Genomics, a multiyear collaboration between the state, the University, and Mayo Clinic, promises to position Minnesota as a world center of biotechnology and medical genomics, leading to more new businesses and jobs in Minnesota.

There are thousands of quiet and less visible ways in which the University of Minnesota touches a life. Since 1992, the University's City Songs program has taught more than 900 children how to use their talents and increase their sense of self-worth; in recent years, more than 65,000 square feet of shoreland—including aquatic, wet meadow, and upland areas—have been revegetated thanks to the University's Shoreland Education workshops; the Jane Addams School for Democracy, a program of the University's Hubert H. Humphrey Institute of Public Affairs and the West Side neighborhood of St. Paul, guides new immigrants into American life.

Each year of the coming decade will hold opportunities and challenges. The University of Minnesota will face them the same way it has since its founding in 1851: with a drive to discover—to unearth new ways to educate its students, to recruit and foster the best minds, to tackle the ills of the world, and to make the most of its resources and opportunities.

It all happens here. Teaching. Learning. Research. Sharing. Innovation. Discovery. And transformation. When there's willingness to transform and to face seemingly insurmountable challenges, aspirations can become a reality. That's the future of the University of Minnesota.

Financial Report

Introduction

This discussion and analysis of the University of Minnesota's (the University) consolidated financial statements provides an overview of the consolidated financial position and activities of the University for the years ended June 30, 2006 and 2005, with comparative information for the year ended June 30, 2004. The discussion has been prepared by management and should be read in conjunction with the consolidated financial statements and the accompanying notes.

The University of Minnesota is both the state's land-grant university, with a strong tradition of education and public service, and a major research institution, with faculty of national and international reputation. Its statutory mission is to offer undergraduate, graduate, and professional instruction through the doctoral degree, and to be the primary state-supported academic institution for research and extension services.

The University of Minnesota, founded in 1851, has five campuses (Twin Cities, Duluth, Morris, Crookston, Rochester), research and outreach centers, and extension service offices throughout the state. Prior to fiscal year 2006, the Rochester campus was a collaborative center in the Twin Cities financial statements.

The Twin Cities campus is the second largest campus in the country in terms of enrollment (approximately 51,200 students) and also one of the most comprehensive. It is the state's major research institution with expenditures of approximately $478.8 million, $464.9 million, and $422.3 million in fiscal years 2006, 2005, and 2004, respectively, for research under various programs funded by governmental and private sources.

The Duluth campus is a comprehensive regional university that offers instruction through the master's degree and has unique research strengths in natural and freshwater resources.

The Morris campus provides an innovative and high quality residential undergraduate liberal arts education to a very select and intellectually gifted student body.

The Crookston campus provides career-oriented education at the baccalaureate level, primarily in polytechnical disciplines.

The Rochester campus is focused on meeting the educational needs of students in southeastern Minnesota at the upper division undergraduate and postbaccalaureate levels.

Mission

The University of Minnesota's mission, carried out on multiple campuses and throughout the state, is threefold: research and discovery, teaching and learning, and outreach and public service.

- **Research and Discovery—**To generate and preserve knowledge, understanding, and creativity by conducting high quality research, scholarship, and artistic activity that benefit students, scholars, and communities across the state, the nation, and the world.
- **Teaching and Learning—**To share that knowledge, understanding, and creativity by providing a broad range of educational programs in a strong and diverse community of learners and teachers, and prepare graduate, professional, and undergraduate students, as well as non-degree-seeking students interested in continuing education and lifelong learning, for active roles in a multiracial and multicultural world.
- **Outreach and Public Service—**To extend, apply, and exchange knowledge between the University and society by applying scholarly expertise to community problems, by helping organizations and individuals respond to their changing environments, and by making the knowledge and resources created and preserved at the University accessible to the citizens of the state, the nation, and the world.

Operations

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

- provides instruction for more than 65,500 students;
- graduates approximately 12,700 students, 41 percent with graduate or first professional degrees on the Twin Cities campus;
- conducts research sponsored by the National Institutes of Health, the National Science Foundation, other federal agencies, and numerous private companies and foundations;
- reaches out to more than 1 million Minnesotans through various outreach and public service activities.

Consolidated Financial Statements

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

Consolidated Statements of Net Assets

The Consolidated Statements of Net Assets present the consolidated financial position of the University at the end of the fiscal year, under a classified balance sheet format that reflects current and noncurrent assets and liabilities, and report net assets under the following three separate classifications:

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

Figure 1
The University's consolidated assets, liabilities, and net assets on June 30, 2006, 2005, and 2004
(dollars in thousands)

				Increase (Decrease)			
				From 2005 to 2006		From 2004 to 2005	
	2006	2005	2004	Amount	Percent	Amount	Percent
Assets							
Current assets	$ 564,780	$ 543,582	$ 548,431	$ 21,198	3.9%	$ (4,849)	(0.9%)
Other noncurrent assets	1,451,029	1,360,331	1,178,258	90,698	6.7%	182,073	15.5%
Capital assets, net	1,906,363	1,911,321	1,862,746	(4,958)	(0.3%)	48,575	2.6%
Total assets	3,922,172	3,815,234	3,589,435	106,938	2.8%	225,799	6.3%
Liabilities							
Current liabilities	437,705	423,290	414,025	14,415	3.4%	9,265	2.2%
Noncurrent liabilities	90,142	98,889	107,747	(8,747)	(8.8%)	(8,858)	(8.2%)
Long-term debt	632,947	666,951	664,954	(34,004)	(5.1%)	1,997	0.3%
Total liabilities	1,160,794	1,189,130	1,186,726	(28,336)	(2.4%)	2,404	0.2%
Net assets							
Unrestricted	370,136	364,387	315,377	5,749	1.6%	49,010	15.5%
Restricted—expendable	899,892	807,257	687,461	92,635	11.5%	119,796	17.4%
Restricted—nonexpendable	216,454	206,647	199,369	9,807	4.7%	7,278	3.7%
Invested in capital assets, net of related debt	1,274,896	1,247,813	1,200,502	27,083	2.2%	47,311	3.9%
Total net assets	2,761,378	2,626,104	2,402,709	135,274	5.2%	223,395	9.3%
Total net assets and liabilties	$3,922,172	$3,815,234	$3,589,435	$106,938	2.8%	$225,799	6.3%

Current assets consist primarily of cash and cash equivalents, securities lending collateral, and net receivables. The change in current assets over the three fiscal years was primarily the result of change in receivable balances. The most significant impact to the increase in the total receivables balance (shown in Figure 2) was the timing of the State of Minnesota's payment for Medical Education and Research Costs (MERC) and the Prepaid Medical Assistance Program (PMAP). The increase in trade receivables was partially offset by a decrease in student receivables. The gross receivable balance from students continued to decrease, despite rising tuition costs, due to better collection results on past-due student receivables.

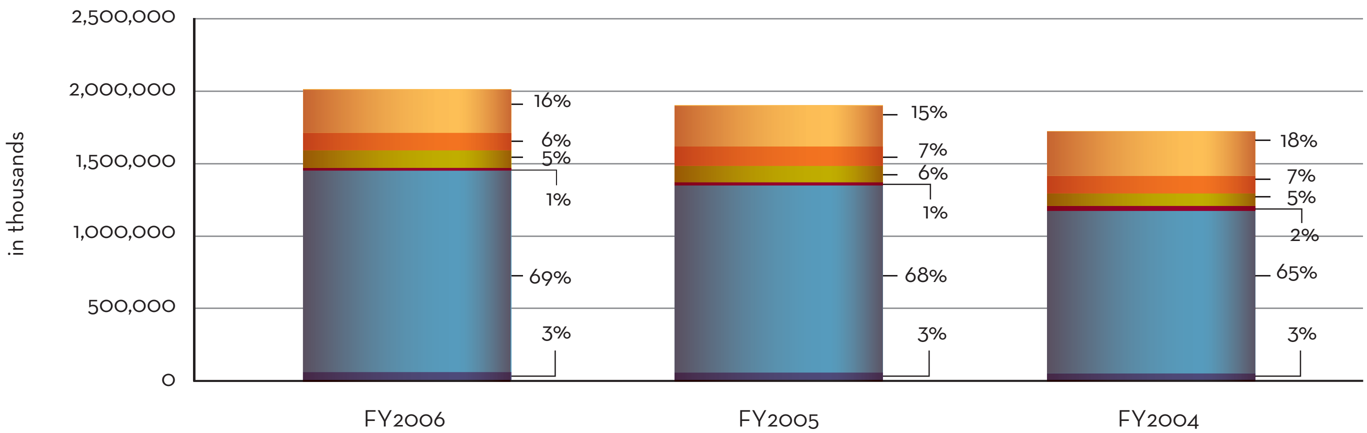


Figure 2
The University's current and noncurrent assets (excluding capital) on June 30, 2006, 2005, and 2004
(dollars in thousands)

	2006	2005	2004	Increase (Decrease) From 2005 to 2006 Amount	Percent	From 2004 to 2005 Amount	Percent
Current assets							
Receivables, net	$ 312,498	$ 283,887	$ 306,555	$ 28,611	10.1%	$ (22,668)	(7.4%)
Cash and cash equivalents	119,783	130,648	124,530	(10,865)	(8.3%)	6,118	4.9%
Securities lending collateral and investments	110,483	106,528	80,177	3,955	3.7%	26,351	32.9%
Other assets	22,016	22,519	37,169	(503)	(2.2%)	(14,650)	(39.4%)
Total current assets	564,780	543,582	548,431	21,198	3.9%	(4,849)	(0.9%)
Noncurrent assets							
Investments	1,390,404	1,294,165	1,112,242	96,239	7.4%	181,923	16.4%
Receivables, net	56,646	58,948	58,108	(2,302)	(3.9%)	840	1.4%
* Cash and cash equivalents and other assets	3,979	7,218	7,908	(3,239)	(44.9%)	(690)	(8.7%)
Total noncurrent assets	1,451,029	1,360,331	1,178,258	90,698	6.7%	182,073	15.5%
Total assets (excluding capital)	$2,015,809	$1,903,913	$1,726,689	$111,896	5.9%	$177,224	10.3%

* *Total is less than 1 percent—not included on the graph.*

Noncurrent assets consisted mainly of long-term endowment and other investments, which included increases from net unrealized and realized gains on the endowment and other investments of $83.2 million and $116.3 million; reinvested endowment earnings; and a decrease of $30.5 million and $30.2 million for fiscal years 2006 and 2005, respectively, related to the annual distribution to departments. The remaining increase was due to a change in the nature of the investments, which increased the amount classified as investments. Student loan receivables scheduled for collection beyond the current year reported and prepaid expenses and deferred charges made up the majority of the remaining noncurrent assets.

The University's non-debt-related liabilities were 45 and 44 percent of total liabilities, or $527.8 million and $522.2 million, on June 30, 2006 and 2005, respectively (shown in Figure 3). Non-debt-related liabilities consisted primarily of accounts payable, securities lending collateral, accrued liabilities, and unearned income. Current non-debt-related liabilities also included revenue related to summer session tuition and fees deferred to the next fiscal year and funds received in advance of expenditures on sponsored accounts.

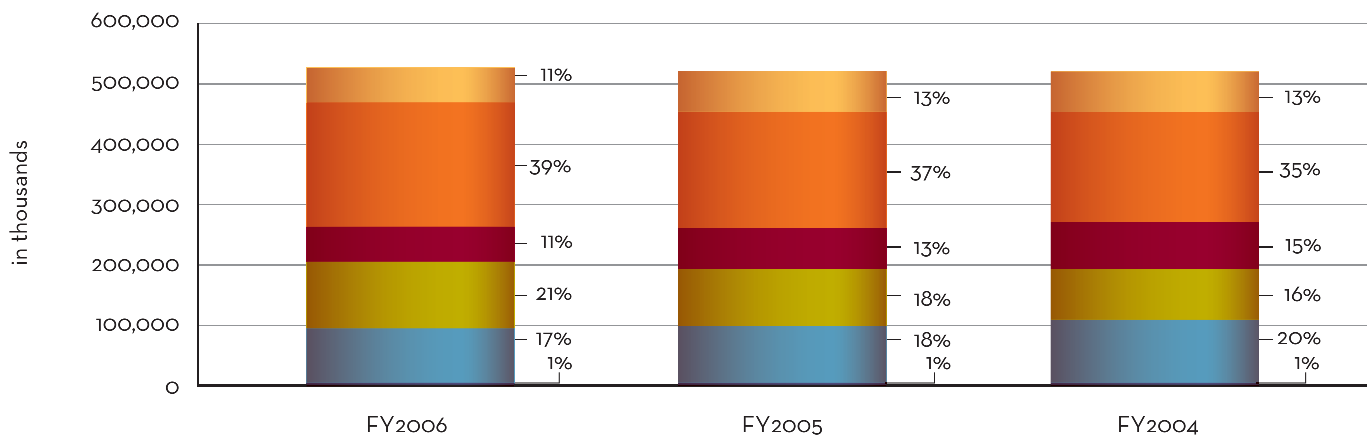


Figure 3
The University's non-debt-related current and noncurrent liabilities on June 30, 2006, 2005, and 2004
(dollars in thousands)

	2006	2005	2004	Increase (Decrease) From 2005 to 2006 Amount	From 2005 to 2006 Percent	From 2004 to 2005 Amount	From 2004 to 2005 Percent
Current liabilities							
Accounts payable	$ 60,132	$ 66,774	$ 66,794	$(6,642)	(9.9%)	$ (20)	(0.0%)
Accrued liabilities and other	207,040	192,244	185,305	14,796	7.7%	6,939	3.7%
Securities lending collateral	60,803	70,879	75,696	(10,076)	(14.2%)	(4,817)	(6.4%)
Unearned income	109,730	93,393	86,230	16,337	17.5%	7,163	8.3%
Total current liabilities	437,705	423,290	414,025	14,415	3.4%	9,265	2.2%
Noncurrent liabilities							
Accrued liabilities and other	87,152	94,695	102,447	(7,543)	(8.0%)	(7,752)	(7.6%)
Unearned income	2,990	4,194	5,300	(1,204)	(28.7%)	(1,106)	(20.9%)
Total noncurrent liabilities	90,142	98,889	107,747	(8,747)	(8.8%)	(8,858)	(8.2%)
Total non-debt-related liabilities	$527,847	$522,179	$521,772	$ 5,668	1.1%	$ 407	0.1%

Current accrued liabilities and other consisted primarily of compensation and benefit accruals and the University's self-insurance reserves. The increase was primarily due to higher payroll accruals that resulted from a salary increase between years and one extra day of accrued payroll between June 30, 2006 and 2005, and between June 30, 2005 and 2004.

Current unearned income consisted of revenue related to summer session tuition and fees deferred to the following fiscal year, funds received in advance of expenditures on sponsored accounts, and deferred revenue related to contracts with outside corporations. Sponsored deferred revenue increased $14.1 million and $7.5 million over fiscal years 2006 and 2005, respectively. Also adding to the increase in deferred revenue in fiscal year 2006 were higher tuition and fees related to summer session, more students using the prepayment option, and an increase in enrollment at the Learning Abroad Center.

The University had loaned securities at June 30, 2006, 2005, and 2004. They were supported by collateral of approximately $60.8 million, $70.9 million, and $75.7 million, which is included as securities lending collateral in the consolidated statements of net assets at June 30, 2006, 2005, and 2004, respectively. Of this collateral amount, approximately $58.2 million, $68.8 million, and $73.8 million was cash and approximately $2.6 million, $2.1 million, and $1.9 million was acceptable noncash collateral at June 30, 2006, 2005, and 2004, respectively.

Noncurrent accrued liabilities and other decreased $7.5 million and $7.8 million in fiscal years ending June 30, 2006 and 2005, respectively. A decrease in the liability to University of Minnesota Medical Center, Fairview, for prior settlement of hospital claims of $6.0 million in both fiscal years 2006 and 2005 made up the majority of the decrease.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets

The Consolidated Statements of Revenues, Expenses, and Changes in Net Assets present the institution's operating, nonoperating, and capital- and endowment-related financial activity during the year. This statement differentiates between operating and nonoperating revenues and expenses, and it displays the net income or loss from operations. Operating revenues are those generated by the University's principal ongoing operations such as tuition, sponsored research grants and contracts, and sales and services provided by the University's educational and self-supporting auxiliary units. State appropriations, under GASB Statement No. 34, are considered nonoperating revenues, as are gifts and other revenues for which the University does not give equal value in exchange for the resources received.

Figure 4
The University's consolidated revenues, expenses, and changes in net assets for the years ended June 30, 2006, 2005, and 2004
(dollars in thousands)

				Increase (Decrease)			
				From 2005 to 2006		From 2004 to 2005	
	2006	2005	2004	Amount	Percent	Amount	Percent
Operating revenues							
Student tuition and fees, net	$ 496,705	$ 463,417	$ 407,631	$ 33,288	7.2%	$ 55,786	13.7%
Grants and contracts	601,169	592,567	588,994	8,602	1.5%	3,573	0.6%
Auxiliary enterprises, net	268,042	244,889	238,275	23,153	9.5%	6,614	2.8%
Educational activities	141,237	132,401	127,149	8,836	6.7%	5,252	4.1%
Federal appropriations	15,907	14,294	16,657	1,613	11.3%	(2,363)	(14.2%)
Other revenues	7,399	5,608	2,069	1,791	31.9%	3,539	171.0%
Total operating revenues	1,530,459	1,453,176	1,380,775	77,283	5.3%	72,401	5.2%
Operating expenses	2,368,073	2,201,238	2,098,030	166,835	7.6%	103,208	4.9%
Operating loss	(837,614)	(748,062)	(717,255)	(89,552)	12.0%	(30,807)	4.3%
Nonoperating revenues (expenses)							
State appropriations	616,445	573,392	577,648	43,053	7.5%	(4,256)	(0.7%)
Grants and gifts	211,546	205,935	197,585	5,611	2.7%	8,350	4.2%
Net investment gain	120,827	148,847	115,272	(28,020)	(18.8%)	33,575	29.1%
Interest on capital asset-related debt	(28,106)	(27,470)	(28,024)	(636)	2.3%	554	(2.0%)
Other nonoperating revenues (expenses), net	(3,986)	164	4,133	(4,150)	(2530.5%)	(3,969)	(96.0%)
Income before other revenues	79,112	152,806	149,359	(73,694)	(48.2%)	3,447	2.3%
Capital appropriations	35,957	50,936	58,892	(14,979)	(29.4%)	(7,956)	(13.5%)
Capital and endowment gifts and grants	20,205	19,653	31,063	552	2.8%	(11,410)	(36.7%)
Total other revenues	56,162	70,589	89,955	(14,427)	(20.4%)	(19,366)	(21.5%)
Increase in net assets	135,274	223,395	239,314	(88,121)	(39.4%)	(15,919)	(6.7%)
Net assets, beginning of year	2,626,104	2,402,709	2,163,395	223,395	9.3%	239,314	11.1%
Net assets, end of year	$2,761,378	$2,626,104	$2,402,709	$135,274	5.2%	$223,395	9.3%

One of the University's strengths is a diversified revenue base including student tuition and fees, grants and contracts, sales by auxiliary and educational units, and state appropriations.

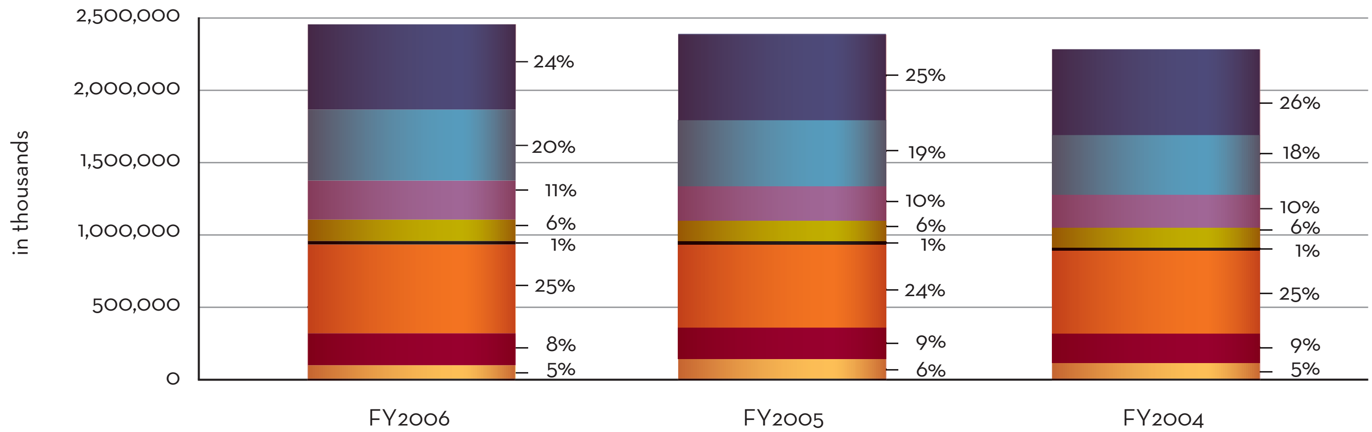


Figure 5
The University's operating and nonoperating revenue for the years ended June 30, 2006, 2005, and 2004
(dollars in thousands)

				Increase (Decrease)			
				From 2005 to 2006		From 2004 to 2005	
	2006	2005	2004	Amount	Percent	Amount	Percent
Operating revenues							
Grants and contracts	$ 601,169	$ 592,567	$ 588,994	$ 8,602	1.5%	$ 3,573	0.6%
Student tuition and fees, net	496,705	463,417	407,631	33,288	7.2%	55,786	13.7%
Auxiliary enterprises, net	268,042	244,889	238,275	23,153	9.5%	6,614	2.8%
Educational activities	141,237	132,401	127,149	8,836	6.7%	5,252	4.1%
Federal appropriations and other operating revenue	23,306	19,902	18,726	3,404	17.1%	1,176	6.3%
Total operating revenues	1,530,459	1,453,176	1,380,775	77,283	5.3%	72,401	5.2%
Nonoperating revenues							
State appropriations	616,445	573,392	577,648	43,053	7.5%	(4,256)	(0.7%)
Grants, gifts, and other nonoperating, net	207,560	206,099	201,718	1,461	0.7%	4,381	2.2%
Net investment gain	120,827	148,847	115,272	(28,020)	(18.8%)	33,575	29.1%
Total nonoperating revenues	944,832	928,338	894,638	16,494	(1.8%)	33,700	3.8%
Total revenues (noncapital)	$2,475,291	$2,381,514	$2,275,413	$93,777	3.9%	$106,101	4.7%

An increase in federal and state government grants and contracts was partially offset by a decrease in nongovernmental grants and contracts in fiscal year 2006. The majority of the increase in state and other governmental grants was due to the Minnesota Partnership for Biotechnology and Medical Genomics (U-Mayo partnership) grant funding of $16.2 million. Grants and contracts remained relatively the same between fiscal years 2005 and 2004. Exchange grants are recorded as operating revenues, while nonexchange grants are recorded under nonoperating revenues (shown in Figure 5).

The increase in student tuition and fees revenue was due to tuition and required fee increases that averaged approximately 6.5 percent; relatively stable enrollment; and scholarship allowances for the years ended June 30, 2006, 2005, and 2004, of $98.6 million, $96.3 million, and $88.9 million, respectively.

Revenues from sales and services of educational activities included the Learning Abroad Center, royalty receipts from sales of products using University patents or technology, ticket sales to Northrop performances, and research work for outside businesses.

State appropriations, in addition to other sources of unrestricted revenue (tuition and educational and auxiliary activities) and nonoperating grants, funded a number of University priorities including competitive compensation plans for faculty and staff; various academic initiatives; enhancement of services to students including technology improvements; upgrades to the financial aid process and freshman seminars; and increases in facilities costs.

Other significant sources of nonoperating revenue to the University included gifts in support of operating expenses of $97.2 million, $94.2 million, and $97.3 million, and grants and gifts for capital purposes of $12.4 million, $14.7 million, and $25.4 million in fiscal years 2006, 2005, and 2004, respectively.

Capital appropriations are generally awarded biennially by the State of Minnesota. The University records state capital appropriation revenue only when approved capital expenditures have been incurred.

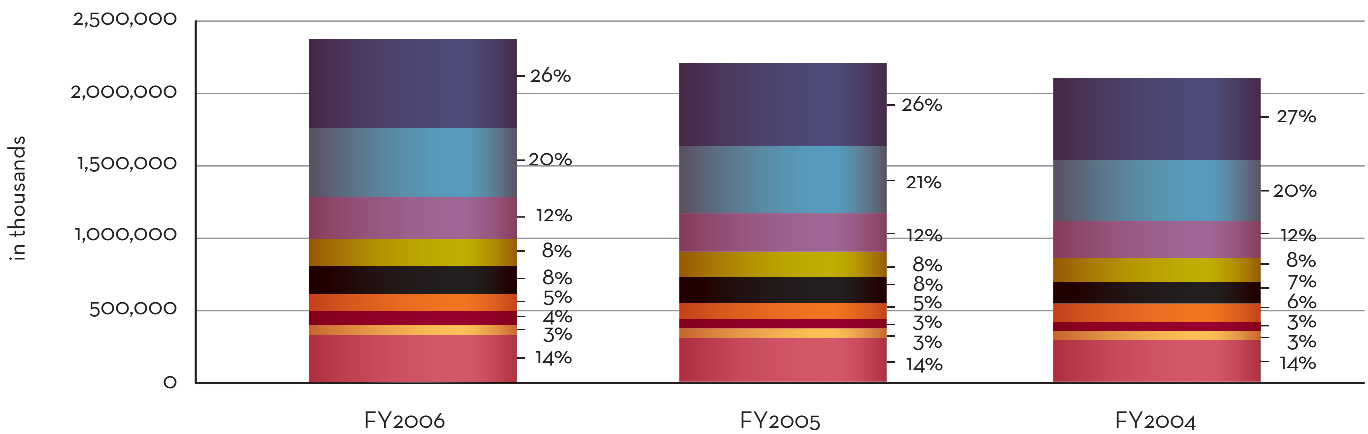


Figure 6
The University's total expenses by functional category for the years ended June 30, 2006, 2005, and 2004
(dollars in thousands)

	2006	2005	2004	Increase (Decrease) From 2005 to 2006 Amount	Percent	From 2004 to 2005 Amount	Percent
Education and general							
Instruction	$ 621,355	$ 581,297	$ 560,906	$ 40,058	6.9%	$ 20,391	3.6%
Research	478,760	464,893	422,290	13,867	3.0%	42,603	10.1%
Academic support	294,438	265,531	251,602	28,907	10.9%	13,929	5.5%
Public service	182,101	173,830	165,200	8,271	4.8%	8,630	5.2%
Operation and maintenance of plant	191,921	164,623	152,372	27,298	16.6%	12,251	8.0%
Institutional support	127,100	108,902	116,481	18,198	16.7%	(7,579)	(6.5%)
Student services	79,966	74,025	71,082	5,941	8.0%	2,943	4.1%
Scholarships and fellowships	70,971	69,857	66,605	1,114	1.6%	3,252	4.9%
Total education and general	2,046,612	1,902,958	1,806,538	143,654	7.5%	96,420	5.3%
Other operating expenses							
Depreciation	136,120	127,091	126,930	9,029	7.1%	161	0.1%
Auxiliary enterprises	185,618	170,543	164,218	15,075	8.8%	6,325	3.9%
Other operating expenses, net	(277)	646	344	(923)	(142.9%)	302	87.8%
Total other operating expenses	321,461	298,280	291,492	23,181	7.8%	6,788	2.3%
Total operating expenses (noncapital)	$2,368,073	$2,201,238	$2,098,030	$166,835	7.6%	$103,208	4.9%

Across almost all functional categories, salaries and compensation-related expenditures continued to represent the most significant expense to the University at $1.5 billion or 65.2 percent, $1.4 billion or 65.6 percent, and $1.4 billion or 66.3 percent of operating expenses in fiscal years 2006, 2005, and 2004 respectively. Effective January 1, 2004, the University initiated a self-insured dental program. This change was made to gain more control over the management of health care benefits, contain the rising cost of health care, and tailor benefits to meet the expressed needs of employees. Additional details on the University's self-insurance programs can be found in Note 9 of the consolidated financial statements.

Consolidated Statements of Cash Flows

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

Figure 7
The University's cash flows for the years ended June 30, 2006, 2005, and 2004
(dollars in thousands)

				Increase (Decrease)			
				From 2005 to 2006		From 2004 to 2005	
	2006	2005	2004	Amount	Percent	Amount	Percent
Cash (used in) provided by							
Operating activities	$(677,316)	$(600,810)	$(601,667)	$(76,506)	12.7%	$ 857	(0.1%)
Noncapital financing activities	816,356	795,853	774,291	20,503	2.6%	21,562	2.8%
Capital and related financing activities	(159,531)	(124,362)	(227,890)	(35,169)	28.3%	103,528	(45.4%)
Investing activities	8,580	(63,873)	(160,568)	72,453	(113.4%)	96,695	(60.2%)
Net increase (decrease) in cash	(11,911)	6,808	(215,834)	(18,719)	(275.0%)	222,642	(103.2%)
Cash, beginning of year	131,694	124,886	340,720	6,808	5.5%	(215,834)	(63.3%)
Cash, end of year	$119,783	$131,694	$124,886	$(11,911)	(9.0%)	$ 6,808	5.5%

The University's cash and cash equivalents decreased $11.9 million due to the use of funds for operating activities and capital acquisitions and related financing activities partially offset by the inflow of funds provided by noncapital financing and investing activities. The most significant sources of cash provided by noncapital financing activities included state appropriations totaling $615.2 million and $572.7 million, grants totaling $95.7 million and $122.9 million, and gifts totaling $94.6 million and $95.1 million in fiscal years 2006 and 2005, respectively. Cash inflows for capital acquisitions from state appropriations, gifts and grants, and bonds issued during the year funded the University's equipment needs and ongoing renovation and construction initiatives.

Investment Activities

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

During fiscal years 2006 and 2005, the value of the University's endowment funds increased significantly. Long-term endowment and other investments included increases from net unrealized and realized gains on the endowment and other investments of $83.2 million and $116.3 million; reinvested endowment earnings; and a decrease of $30.5 million and $30.2 million for fiscal years 2006 and 2005, respectively, related to the annual distribution of 4.9 percent of the five-year moving-average market value of the endowment to departments.

To provide a relatively stable level of support for endowed programs, a specified percentage of a five-year moving-average market value of the endowment is distributed each year. These distributions provide funds for a variety of purposes, including instructional needs, research activities, scholarships, and academic support. An endowment spending policy requires balancing current needs with the long-term focus of the institution. The endowment funds distribution rate was 4.9 percent in fiscal year 2006 and 5.0 percent in fiscal year 2005.

Capital and Debt Activities

Gross capital assets spending on capital projects increased over the past three fiscal years. The major building projects completed in fiscal year 2006 included the Sports and Health Center expansion on the Duluth campus, the Social Science Building on the Morris campus, and renovation of Nicholson Hall, Jones Hall, and the St. Paul Chiller Plant on the Twin Cities campus. Those completed in fiscal year 2005 included the Swenson Science building on the Duluth campus, the McGuire Translational Research Facility and the Cargill Building for Microbial and Plant Genomics on the Twin Cities campus, and phase two of the Oswald Visitor Center at the Minnesota Landscape Arboretum. The Twin Cities campus also completed a $16 million data network upgrade in 2005. See Note 4 of the consolidated financial statements for more detailed information about capital assets.

Capital additions totaled $144.2 million in fiscal year 2006. Total additions were down from the prior years' total additions of $179.5 million and $164.6 million for fiscal years 2005 and 2004, respectively. Fiscal year 2006 spending included the Centennial Hall and Commons residential building on the Crookston campus. Additional spending in fiscal year 2006 included the purchase of 2301 University Avenue and Reichold properties.

Figure 8
The University's capital asset categories (before depreciation) for the years ended June 30, 2006, 2005, and 2004
(dollars in thousands)

				Increase (Decrease)			
				From 2005 to 2006		From 2004 to 2005	
	2006	2005	2004	Amount	Percent	Amount	Percent
Capital assets (gross)							
Buildings and improvements	$2,730,865	$2,653,091	$2,505,787	$77,774	2.9%	$147,304	5.9%
Equipment	558,947	561,241	539,608	(2,294)	(0.4%)	21,633	4.0%
Library and other collections	145,431	140,918	137,211	4,513	3.2%	3,707	2.7%
Construction in progress	33,576	54,266	107,170	(20,690)	(38.1%)	(52,904)	(49.4%)
Land	57,955	46,166	39,467	11,789	25.5%	6,699	17.0%
Total capital assets (gross)	$3,526,774	$3,455,682	$3,329,243	$71,092	2.1%	$126,439	3.8%

Bonds and other debt payable totaled $632.9 million, $667.0 million, and $665.0 million on June 30, 2006, 2005, and 2004, respectively, and included proceeds from general obligation bonds, commercial paper, capital leases, and debt service obligations related to State of Minnesota infrastructure development bonds of $162.0 million and $34.3 million issued in fiscal years 2006 and 2005, respectively.

On October 4, 2005, the exercise of a related put option required the University to refund the Series 1996A General Obligation Bonds. The University issued $159.1 million in tax-exempt Commercial Paper Notes, Series A, to refund the General Obligation Bonds, Series 1996A, and to pay the cost of issuance.

Four of the University's bond issuances have demand provisions that require the University to repurchase the bonds upon notice from bondholders. At the date of this report, none of the bondholders had exercised the put option. In December 2003, the University entered into a standby bond purchase agreement to provide liquidity support for the Series 2001C bonds. The agreement, which expires on December 16, 2008, provides for 10 equal semiannual installments at six-month intervals of the bonds put back to the banks holding the agreement. No amounts had been drawn under this agreement through June 30, 2006. In June 2004, the University entered into a standby bond purchase agreement to provide liquidity support for the Series 1999A bond. In June 2006, the agreement was extended to three years and provides for equal installment payments on June 1 and December 1. No amounts had been drawn through June 30, 2006, under this agreement. Additional details on capital and long-term debt activities can be found in Notes 4 and 5 of the consolidated financial statements.

Factors Affecting Future Economic Conditions

The financial position of the University of Minnesota is strong. As evidenced in the annual consolidated financial statements, increased operating revenues, strong investment performance, and a continued focus on cost containment, total net assets of the University increased by approximately $135.3 million or 5.2 percent compared with the prior fiscal year.

The economic health of the University is closely tied to that of the State of Minnesota in that the University relies on the state as a major source of funding for both its educational program related needs and capital appropriations. For the foreseeable future, from the standpoint of financial support, the University's success and, ultimately, its ability to reach its strategic goals and strengthen its academic profile will be dependent on continued strong state support—both to keep pace with the growing competitive research environment and to continue to play a vital role in the economic growth and well-being of its citizens.

Nearly two years ago, the University looked at the challenges it faced as an international research university. It saw that the money allocated for higher education was shrinking; that competition was growing for the best students, staff, and faculty; and that research funding was increasingly competitive and focused more and more on multidisciplinary work.

Today, the University of Minnesota is on a journey to become one of the best and most productive research universities in the world. The initiative to transform the University has been described as one of the most far-reaching and comprehensive in the University's history. It has won widespread support within the University community and has been strongly endorsed by many external parties. The University is making enormous strides in its effort to transform itself. For example, programs and departments from six separate colleges have been redesigned to create new academic synergies that will lead the way to meet many of the challenges that society will face in the 21st century. On July 1, 2006, the number of Twin Cities campus colleges was reduced from 20 to 17. The University is designing new programs that will enhance the undergraduate educational experience and add to its distinctiveness. Among the many new initiatives are a new campus honors program, a writing initiative that will touch every undergraduate on campus, and expanded undergraduate research opportunities that will allow even more bachelor's degree students to engage with faculty conducting cutting-edge research. These and many other efforts are part of a bold strategic positioning initiative and among the first steps in a 10-year University effort to transform itself.

Looking toward the next two years, the University will submit its biennial budget request to the 2007 Minnesota State Legislature. This request builds on past efforts to transform the University and will be strongly grounded in goals identified through the strategic positioning effort. The request for new funds will be made within a two-part framework and will include needed investments, first, to sustain Minnesota's quality and competitiveness and, second, to create Minnesota's future. Investments in the first category include needed compensation increases for faculty, staff, and students; funds to support critical new activities that support and advance education programs and related support systems for students; new resources for technology and infrastructure to support research and education; and funds required to meet the University's stewardship responsibilities for buildings and related infrastructure. Investments in the second category will be requested to provide vital new resources in areas essential to Minnesota's economic vitality and quality of life. Resources will be targeted specifically for attracting and retaining top faculty; for new research and education programs in health sciences; for investments in science and engineering; and to enhance Minnesota's comparative advantage in agriculture, renewable energy, and the environment.

In order to accomplish the goals set out in its strategic positioning activities, the University has built a financial framework for the next two years that is realistic and grounded in a continued strong, historical financial partnership with the State of Minnesota. The state's support, coupled with modest increases in tuition and a commitment to continue to find operational and administrative efficiencies internally and to develop new resources in order to continue to broaden its already well diversified financial resource portfolio, will ensure that the University of Minnesota will be able to continue its journey to become one of the best and most productive research universities in the world.

During the past fiscal year, the University of Minnesota went to the 2006 Minnesota State Legislature with a new capital budget request strategically focused on capital projects critical for supporting academic excellence; supporting students and their learning environments; meeting its commitment to public engagement and outreach; and solving multiple capital budget problems. The request totaled $269.1 million and was built around the need to address the University's future in terms of what it provides to students and the citizens of Minnesota and the University's unique responsibility within Minnesota's system of higher education. Included in the request was a new proposal to establish a long-term, predictable funding plan for support of biomedical sciences. This proposal for the amount of $366 million called for the State of Minnesota to establish a new biomedical sciences facility authority that would be granted the authority to award $330 million in grants to the University of Minnesota, requiring a 10 percent match or roughly $36.0 million from the University, for the purpose of supporting the construction or renovation of approximately 750,000 square feet of buildings for new research activities in biomedical sciences. The proposal was designed to accomplish the construction or renovation of roughly 150,000 square feet every two years through 2016. This innovative proposal was warmly endorsed by legislators and other elected officials. Legislation was passed by the senate but did not get a final vote in the house. The final capital budget bill of the 2006 session provided the University with $158.5 million and included $60.0 million to begin construction of the first building contemplated in the original biomedical facilities authority legislation. The University was encouraged by members of both houses as well as the governor to return to the 2007 legislature to reintroduce the biomedical sciences facility authority legislation.

In spring 2007, the University will update its six-year capital plan, which will be strongly aligned with the strategic positioning goals of the University and directly tied to academic program requirements necessary for achieving long-term goals. The major focus of the six-year capital plan will be to outline projects to be requested from the State of Minnesota. The University traditionally returns to the state legislature in even-numbered years for capital budget appropriations; the majority of new academic buildings or renovations to existing academic buildings are sought from the state. Most projects authorized by the State of Minnesota carry a one-third financial obligation from the University. In addition, the University uses its own debt authority to construct facilities and to meet its one-third share of costs related to state-authorized projects. The University's outstanding debt totaled $632.9 million on June 30, 2006. The weighted average cost of capital was 4.37 percent per the original bond agreements, and the average life of debt was 10.1 years, with 98.0 percent fixed and 2.0 percent variable. The six-year capital plan will reflect a prudent use of debt financing based upon a careful financial analysis and coupled with long-term modeling of the six-year plan's impact on key financial operating ratios. An analysis of student demand, market position, and financial indicators places the University solidly in the strong "Aa" category, as rated by Moody's Investors Services.

University of Minnesota
Independent Auditors' Report

To the Board of Regents of the University of Minnesota

We have audited the accompanying consolidated statements of net assets of the University of Minnesota (the University), as of and for the years ended June 30, 2006 and 2005, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the discretely presented component units. Those statements and the prior year comparative information were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University, is based solely on the report of such other auditors. Prior year summarized comparative information has been derived from the discretely presented component units' June 30, 2005 financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective financial position of the University, as of June 30, 2006 and 2005, and the respective consolidated changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2006, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 12 through 25, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Larson, Allen, Weishair & Co. LLP

Larson, Allen, Weishair & Co., LLP
Minneapolis, Minnesota
October 24, 2006

Consolidated Statements of Net Assets (Excluding Component Units)

June 30, 2006 and 2005 (in thousands)

			2006	2005
Assets				
Current assets	Cash and cash equivalents		$ 119,783	$ 130,648
	Securities lending collateral		60,803	70,879
	Short-term investments		49,680	35,649
	Receivables, net		299,002	271,569
	Inventories, net		18,792	18,582
	Current portion of student loan receivables, net		13,496	12,318
	Current portion of prepaid expenses and deferred charges		3,026	3,737
	Other assets		198	200
	Total current assets		564,780	543,582
Noncurrent assets	Restricted cash and cash equivalents			1,046
	Investments		1,390,404	1,294,165
	Receivables, net		1,149	1,337
	Student loan receivables, net		55,497	57,611
	Prepaid expenses and deferred charges		3,936	6,030
	Other assets		43	142
	Capital assets, net		1,906,363	1,911,321
	Total noncurrent assets		3,357,392	3,271,652
Total assets			3,922,172	3,815,234
Liabilities				
Current liabilities	Accounts payable		60,132	66,774
	Accrued liabilities and other		207,040	192,244
	Securities lending collateral		60,803	70,879
	Unearned income		109,730	93,393
	Long-term debt—current portion		291,963	400,019
	Total current liabilities		729,668	823,309
Noncurrent liabilities	Accrued liabilities and other		87,152	94,695
	Unearned income		2,990	4,194
	Long-term debt		340,984	266,932
	Total noncurrent liabilities		431,126	365,821
Total liabilities			1,160,794	1,189,130
Net Assets				
	Unrestricted		370,136	364,387
	Restricted	Expendable	899,892	807,257
		Nonexpendable	216,454	206,647
	Invested in capital assets, net of related debt		1,274,896	1,247,813
Total net assets			$2,761,378	$2,626,104

See notes to consolidated financial statements.

Component Units — Statements of Financial Position
June 30, 2006 and 2005 (in thousands)

	University of Minnesota Foundation		Minnesota Medical Foundation		Minnesota Landscape Arboretum Foundation		Minnesota 4-H Foundation		University of Minnesota Physicians		University of Minnesota Alumni Association		University Gateway Corporation	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Assets														
Cash and cash equivalents	$ 8,898	$ 4,682	$ 2,012	$ 433	$ 275	$ 769	$ 360	$ 387	$21,350	$15,689	$ 377	$ 462	$23,739	$ 1,091
Investments, substantially at fair market value	1,146,730	950,999	230,504	208,279	1,996	1,032	7,008	6,167	20,583	20,449	25,356	22,827	614	1,418
Investments held for unitrusts, annuity trusts, and gift annuities			13,854	13,063										
Investments designated for endowments					23,977	19,432								
Investments loaned to broker	62,918	99,332	36,364	33,057										
Investments collateral	64,053	101,920	37,055	34,270										
Pledges receivable, net	52,377	42,764	24,650	26,061	1,663	2,250	689	1,199						
Accounts and other receivables	2,236	2,240	2,089	1,983	163	161	6	2	36,687	35,367	198	99	186	122
Interest in charitable lead trusts, unitrusts, pooled income, and trusts	57,843	55,709	28,268	32,758	437	1,866	37	32						
Gift annuities	28,654	26,504												
Interest in the net assets of related parties													19,129	17,646
Due from affiliated parties	18	19									57	76		
Property and equipment, net	686	773	426	346	566	566	15	12	11,914	12,508	413	523	40,855	39,685
Other assets			486	345			3	5	2,428	1,939	226	256	752	677
Total assets	1,424,413	1,284,942	375,708	350,595	29,077	26,076	8,118	7,804	92,962	85,952	26,627	24,243	85,275	60,639
Liabilities														
Accounts payable and accrued liabilities	4,761	4,184	2,604	2,769	46	61	1,186	944	45,462	43,897	585	945	8,286	7,781
Deferred revenue					380	376		30			3,505	3,712		
Gift annuities payable	14,417	14,437				40								
Split-interest agreement liabilities			8,050	8,040										
Unitrusts, pooled income and annuity trusts payable	11,881	11,818												
Investments held for custody of others	58,065	51,623	2,492	2,590										
Payable under investment loan agreement	64,053	101,920	37,055	34,269										
Notes and bonds payable									2,921	4,299			67,103	45,130
Total liabilities	153,177	183,982	50,201	47,668	426	477	1,186	974	48,383	48,196	4,090	4,657	75,389	52,911
Net Assets														
Unrestricted	48,367	40,222	8,941	8,587	4,204	4,228	185	36	44,579	37,756	21,661	18,805	9,839	7,654
Temporarily restricted	791,866	664,347	142,358	134,103	11,834	8,909	4,071	4,234			180	182	47	74
Permanently restricted	431,003	396,391	174,208	160,237	12,613	12,462	2,676	2,560			696	599		
Total net assets	1,271,236	1,100,960	325,507	302,927	28,651	25,599	6,932	6,830	44,579	37,756	22,537	19,586	9,886	7,728
Total liabilities and net assets	$1,424,413	$1,284,942	$375,708	$350,595	$29,077	$26,076	$8,118	$7,804	$92,962	$85,952	$26,627	$24,243	$85,275	$60,639

See notes to consolidated financial statements.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets (Excluding Component Units) Years ended June 30, 2006 and 2005 (in thousands)

			2006	2005
Revenues				
Operating revenues	Student tuition and fees, net of scholarship allowances of $98,587 in 2006; $96,273 in 2005		$ 496,705	$ 463,417
	Federal appropriations		15,907	14,294
	Federal grants and contracts		374,224	363,335
	State and other government grants		53,232	47,979
	Nongovernmental grants and contracts		173,713	181,253
	Student loan interest income		1,531	1,558
	Sales and services of educational activities		141,237	132,401
	Auxiliary enterprises, net of scholarship allowances of $10,464 in 2006; $10,204 in 2005. Revenues of $3,287 in 2006; $2,798 in 2005 were pledged as security for various auxiliary revenue bonds		268,042	244,889
	Other operating revenues		5,868	4,050
Total operating revenues			1,530,459	1,453,176
Expenses				
Operating expenses	Educational and general	Instruction	621,355	581,297
		Research	478,760	464,893
		Public service	182,101	173,830
		Academic support	294,438	265,531
		Student services	79,966	74,025
		Institutional support	127,100	108,902
		Operation and maintenance of plant	191,921	164,623
		Scholarships and fellowships	70,971	69,857
		Depreciation	136,120	127,091
	Auxiliary enterprises		185,618	170,543
	Other operating expenses, net		(277)	646
Total operating expenses			2,368,073	2,201,238
Operating Loss			(837,614)	(748,062)
Nonoperating Revenues (Expenses)				
State appropriations			616,445	573,392
Grants			114,325	111,783
Gifts			97,221	94,152
Investment income			37,641	32,835
Net increase in the fair market value of investments			83,186	116,012
Interest on capital asset-related debt			(28,106)	(27,470)
Other nonoperating revenues (expenses), net			(3,986)	164
Net nonoperating revenues			916,726	900,868
Income Before Other Revenues			79,112	152,806
Capital appropriations			35,957	50,936
Capital grants and gifts			12,446	14,719
Additions to permanent endowments			7,759	4,934
Total other revenues			56,162	70,589
Increase in Net Assets			135,274	223,395
Net assets at beginning of year			2,626,104	2,402,709
Net assets at end of year			$2,761,378	$2,626,104

See notes to consolidated financial statements.

Component Units — Statements of Activities

Year ended June 30, 2006 (with summarized information for the year ended June 30, 2005) (in thousands)

	University of Minnesota Foundation				
		Temporarily	Permanently	Total	
	Unrestricted	Restricted	Restricted	2006	2005
Revenues					
Contributions	$ 724	$ 55,658	$ 33,848	$ 90,230	$ 55,672
Investment income, net	4,728	7,315	28	12,071	10,934
Net realized and unrealized gains on investments	10,847	141,310		152,157	86,584
Change in carrying value of investments	(96)	2,997	1,950	4,851	4,186
Support services revenue	2,750			2,750	2,764
Other revenue	628			628	659
Net assets released from restriction	80,975	(79,761)	(1,214)	–	–
Total revenues	100,556	127,519	34,612	262,687	160,799
Expenses					
Program services					
Distributions for educational purposes	74,571			74,571	72,883
Support services					
Management and general	6,731			6,731	6,174
Fund-raising	11,109			11,109	10,884
Total expenses	92,411	–	–	92,411	89,941
Increase in net assets	8,145	127,519	34,612	170,276	70,858
Net assets at beginning of year	40,222	664,347	396,391	1,100,960	1,030,102
Net assets at end of year	$ 48,367	$791,866	$431,003	$1,271,236	$1,100,960

See notes to consolidated financial statements.

Component Units — Statements of Activities

Year ended June 30, 2006 (with summarized information for the year ended June 30, 2005) (in thousands)

	Minnesota Medical Foundation				
		Temporarily	Permanently	Total	
	Unrestricted	Restricted	Restricted	2006	2005
Revenues					
Contributions	$ 550	$ 29,638	$ 15,911	$ 46,099	$ 70,555
Net investment return	752	12,764	7,645	21,161	16,495
Change in carrying value of investments		802	(5,528)	(4,726)	2,561
Service charges	8,240	(4,083)	(4,028)	129	134
Receipts from affiliated parties	325	2,128	21	2,474	2,370
Net assets released from restriction	33,044	(32,994)	(50)	–	–
Total revenues	42,911	8,255	13,971	65,137	92,115
Expenses					
Program services					
Research and education grants	28,364			28,364	28,294
Communications	460			460	386
Student aid and scholarships	1,753			1,753	1,794
Honor and award grants	1,175			1,175	1,484
Alumni and sponsored events	1,345			1,345	1,441
Support services					
Management and general	3,304			3,304	3,339
Fund-raising	6,156			6,156	5,988
Total expenses	42,557	–	–	42,557	42,726
Increase in net assets	354	8,255	13,971	22,580	49,389
Net assets at beginning of year	8,587	134,103	160,237	302,927	253,538
Net assets at end of year	$8,941	$142,358	$174,208	$325,507	$302,927

See notes to consolidated financial statements.

Component Units — Statements of Activities

Year ended June 30, 2006 (with summarized information for the year ended June 30, 2005) (in thousands)

	Minnesota Landscape Arboretum Foundation				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	Total 2005
Revenues					
Contributions	$1,849	$ 2,249	$ 124	$ 4,222	$ 3,172
Membership dues and fees	749			749	705
Investment income, net	11	89		100	79
Net realized and unrealized gains on investments	120	2,960		3,080	1,785
Change in carrying value of investments		190	27	217	173
Other revenue	379			379	384
Net assets released from restriction	2,563	(2,563)		–	–
Total revenues	5,671	2,925	151	8,747	6,298
Expenses					
Program services					
Other program services	4,869			4,869	9,199
Support services					
Management and general	149			149	186
Fund-raising	677			677	583
Total expenses	5,695	–	–	5,695	9,968
Increase (decrease) in net assets	(24)	2,925	151	3,052	(3,670)
Net assets at beginning of year	4,228	8,909	12,462	25,599	29,269
Net assets at end of year	$4,204	$11,834	$12,613	$28,651	$25,599

See notes to consolidated financial statements.

Component Units — Statements of Activities

Year ended June 30, 2006 (with summarized information for the year ended June 30, 2005) (in thousands)

	Minnesota 4-H Foundation				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	Total 2005
Revenues					
Contributions	$ 120	$ 148	$ 17	$ 285	$ 261
Investment income, net	53	561	98	712	430
Change in carrying value of investments		4	1	5	1
Other revenue	233	224		457	2,323
Net assets released from restriction	1,049	(1,049)		–	–
Total revenues	1,455	(112)	116	1,459	3,015
Expenses					
Program services					
Other program services	1,029			1,029	804
Support services					
Management and general	109			109	99
Fund-raising	219			219	249
Total expenses	1,357	–	–	1,357	1,152
Increase (decrease) in net assets	98	(112)	116	102	1,863
Net assets at beginning of year	87	4,183	2,560	6,830	4,967
Net assets at end of year	$ 185	$4,071	$2,676	$6,932	$6,830

See notes to consolidated financial statements.

Year ended June 30, 2006 (with summarized information for the year ended June 30, 2005) (in thousands)

	University of Minnesota Physicians	
	Total (unrestricted)	
	2006	2005
Revenues		
Net patient service revenue	$153,209	$145,446
Contract revenue	75,731	62,407
Investment income, net	958	808
Other revenue	2,970	1,240
Total revenues	232,868	209,901
Expenses		
Program services		
Health care services	197,104	176,289
Support services		
Management and general	28,941	28,047
Total expenses	226,045	204,336
Increase in net assets	6,823	5,565
Net assets at beginning of year	37,756	32,191
Net assets at end of year	$ 44,579	$ 37,756

See notes to consolidated financial statements.

Component Units — Statements of Activities

Year ended June 30, 2006 (with summarized information for the year ended June 30, 2005) (in thousands)

	University of Minnesota Alumni Association				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2006	Total 2005
Revenues					
Contributions	$ 137	$ 1		$ 138	$ 135
Membership dues and fees	864			864	852
Investment income, net	90	3		93	94
Change in carrying value of investments	3,257	30	$ 97	3,384	1,948
Other revenue	2,999			2,999	2,873
Net assets released from restriction	36	(36)		–	–
Total revenues	7,383	(2)	97	7,478	5,902
Expenses					
Program services					
Other program services	3,952			3,952	4,541
Support services					
Management and general	556			556	550
Fund-raising	19			19	35
Total expenses	4,527	–	–	4,527	5,126
Increase (decrease) in net assets	2,856	(2)	97	2,951	776
Net assets at beginning of year	18,805	182	599	19,586	18,810
Net assets at end of year	$21,661	$180	$696	$22,537	$19,586

See notes to consolidated financial statements.

Component Units — Statements of Activities

Year ended June 30, 2006 (with summarized information for the year ended June 30, 2005) (in thousands)

	University Gateway Corporation			
		Temporarily	Total	
	Unrestricted	Restricted	2006	2005
Revenues				
Investment income, net	$ 191		$ 191	$ 96
Change in derivative financial instruments	611		611	–
Receipts from affiliated parties		$ 272	272	–
Other revenue	5,646	2,473	8,119	6,868
Net assets released from restriction	2,772	(2,772)	–	–
Total revenues	9,220	(27)	9,193	6,964
Expenses				
Program services				
Other program services	6,627		6,627	11,976
Support services				
Management and general	39		39	25
Payment to affiliated parties	369		369	363
Total expenses	7,035	–	7,035	12,364
Increase (decrease) in net assets	2,185	(27)	2,158	(5,400)
Net assets at beginning of year	7,654	74	7,728	13,128
Net assets at end of year	$9,839	$ 47	$9,886	$7,728

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows (Excluding Component Units)

Years ended June 30, 2006 and 2005 (in thousands)

	2006	2005
Cash Flows From Operating Activities		
Student tuition and fees	$ 495,548	$ 465,438
Federal appropriations	16,700	13,312
Grants and contracts (federal, state, nongovernmental, other)	604,501	597,331
Sales and services of educational activities	147,287	129,654
Auxiliary enterprises	278,239	248,164
Other operating revenues	6,216	4,750
Payments to employees for services	(1,184,639)	(1,118,078)
Payments for fringe benefits	(357,847)	(317,668)
Payments to suppliers for goods and services	(619,066)	(559,933)
Payments for scholarships and fellowships	(65,939)	(65,704)
Loans issued to students	(14,199)	(13,460)
Collection of loans to students	15,883	15,384
Net cash used by operating activities	(677,316)	(600,810)
Cash Flows From Noncapital Financing Activities		
State appropriations	615,174	572,728
Grants for other than capital purposes	95,728	122,907
Gifts for other than capital purposes	94,605	95,121
Private gifts for endowment purposes	7,759	4,934
Other nonoperating revenues, net	4,946	1,330
Direct lending receipts	272,143	255,087
Direct lending disbursements	(272,277)	(254,785)
Agency transactions	(1,722)	(1,469)
Net cash provided by noncapital financing activities	816,356	795,853
Cash Flows From Capital and Related Financing Activities		
Capital appropriations	39,124	76,921
Capital grants and gifts	9,434	13,890
Proceeds from capital debt	159,100	21,491
Purchases of capital assets	(143,807)	(177,069)
Principal paid on capital debt	(194,734)	(26,466)
Interest paid on capital debt	(28,648)	(33,129)
Net cash used by capital and related financing activities	(159,531)	(124,362)
Cash Flows From Investing Activities		
Investment income, net	47,504	60,911
Proceeds from sales and maturities of investments	1,266,074	4,339,590
Purchase of investments	(1,304,998)	(4,464,374)
Net cash provided (used) by investing activities	8,580	(63,873)
Net Increase (Decrease) in Cash	(11,911)	6,808
Cash and Cash Equivalents at Beginning of Year	131,694	124,886
Cash and Cash Equivalents at End of Year	$ 119,783	$ 131,694

See notes to consolidated financial statements.

Years ended June 30, 2006 and 2005 (in thousands)

	2006	2005
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used by Operating Activities		
Operating loss	$(837,614)	$(748,062)
Adjustments to reconcile net operating loss to net cash used by operating activities		
Depreciation expense	136,120	127,091
Changes in assets and liabilities		
Receivables, net	(23,224)	5,797
Inventories	45	640
Prepaid and other items	2,475	14,204
Accounts payable	(5,214)	2,981
Accrued liabilities	9,298	(3,134)
Deferred revenue	40,798	(327)
Net cash used by operating activities	$(677,316)	$(600,810)
Noncash Transactions		
Borrowing under capital lease	$ (1,418)	$ (712)
Equipment	1,418	712

See notes to consolidated financial statements.

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

Organization

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

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

Reporting Entity

The financial reporting entity for the University of Minnesota includes the financial results of the five campuses and, as required under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* (GASB 39), its legally separate component units. The component units are included in the University's reporting entity because of the significance of their operational or financial relationships with the University or its component units.

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

Discretely Presented Component Units—The University's financial statements include the financial data of several tax-exempt component units. They are reported in separate columns on separate pages. GASB 39 requires discrete presentation of component units when either the resources held by these entities can only be used by, or for the benefit of, the University or its component units; or the component units are closely related to, or financially integrated with, the University.

University of Minnesota Foundation

The University of Minnesota Foundation (UMF) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts to benefit the University of Minnesota. The Board of Trustees of the UMF consists of between 30 and 45 members and includes the president of the University of Minnesota. One fourth of the members of the Board of Trustees are appointed by the University. Although the UMF is an independent organization, the majority of resources that the UMF holds and invests, including income from its investments, is restricted to activities of the University by donors.

During the year ended June 30, 2006, the UMF distributed $83,948 to the University. Complete financial statements for the University of Minnesota Foundation can be obtained from the UMF office, McNamara Alumni Center, 200 Oak Street S.E., Suite 500, Minneapolis, MN 55455.

Minnesota Medical Foundation

The Minnesota Medical Foundation (MMF) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts in support of the advancement of health-related education, research, and service at the University of Minnesota. The Board of Trustees of the MMF consists of not fewer than 24 elected members, one third of whom must be physicians. Although the MMF is an independent organization, the majority of resources that the MMF holds and invests, including income from its investments, is restricted to activities of the University by donors.

During the year ended June 30, 2006, the MMF distributed $37,759 to the University. Complete financial statements for the Minnesota Medical Foundation can be obtained from the MMF office, McNamara Alumni Center, 200 Oak Street S.E., Suite 300, Minneapolis, MN 55455.

Minnesota Landscape Arboretum Foundation

The Minnesota Landscape Arboretum Foundation (Foundation) is a legally separate, tax-exempt organization dedicated to raising and managing private gifts for the benefit of the Minnesota Landscape Arboretum of the University of Minnesota. The Board of Trustees of the Foundation consists of between 8 and 36 trustees, and the number of trustees must be divisible by four. One fourth of the trustees are appointed by the University of Minnesota. Although the Foundation is an independent organization, the majority of resources that the Foundation holds and invests, including income from its investments, is restricted to activities of the University by donors.

During the year ended June 30, 2006, the Minnesota Landscape Arboretum Foundation distributed $4,556 to the University. Complete financial statements for the Minnesota Landscape Arboretum Foundation can be obtained from the Foundation office, 3675 Arboretum Drive, Chaska, MN 55318.

Minnesota 4-H Foundation

The Minnesota 4-H Foundation is a legally separate, tax-exempt organization, organized to receive, hold, invest, and administer assets and to make expenditures to or for the benefit of the programs of the Center for 4-H Youth Development, including support of the University of Minnesota Extension Service. The Board of Trustees consists of not fewer than 18 and not more than 21 persons elected from a slate of candidates prepared by the Board of Trustees.

During the year ended June 30, 2006, the Minnesota 4-H Foundation distributed $1,040 to the University. Complete financial statements for the Minnesota 4-H Foundation can be obtained from the Minnesota 4-H Foundation office, McNamara Alumni Center, 200 Oak Street S.E., Suite 270B, Minneapolis, MN 55455.

University of Minnesota Alumni Association

The University of Minnesota Alumni Association (Association) is a legally separate, tax-exempt organization that serves alumni and the University of Minnesota with a mission to connect alumni to the University, advocate and support excellence in education, and build pride, spirit, and community. A volunteer board of 46 directors governs the Association. Members of the board are elected as follows: officers (9) and an honorary director (1) by the Board of Directors; at-large and geographical representatives (18) by the Association's general membership; and collegiate/professional representatives (18) by their respective societies.

During the year ended June 30, 2006, the Association distributed $1,470 to the University. Complete financial statements for the Association can be obtained from the University of Minnesota Alumni Association, McNamara Alumni Center, 200 Oak Street S.E., Suite 200, Minneapolis, MN 55455.

University Gateway Corporation

The University Gateway Corporation (Gateway) is a legally separate, tax-exempt entity that owns and operates a facility used to support three beneficiary organizations and the University of Minnesota in student recruiting, alumni relations, fund-raising activities, and general operations. The beneficiary organizations include the University of Minnesota Foundation, the University of Minnesota Alumni Association, and the Minnesota Medical Foundation. Gateway's six-member Board of Directors consists of three members from the University of Minnesota Foundation, two members from the University of Minnesota Alumni Association, and one member from the Minnesota Medical Foundation.

During the year ended June 30, 2006, Gateway distributed $538 to the University. Complete financial statements for the University Gateway Corporation can be obtained from the McNamara Alumni Center Management Office, 200 Oak Street S.E., Suite 35, Minneapolis, MN 55455.

University of Minnesota Physicians

University of Minnesota Physicians (UMPhysicians) is a legally separate, tax-exempt clinical practice organization for the faculty of the University of Minnesota School of Medicine. The Board of UMPhysicians consists of 24 voting directors, including the UMPhysicians chief executive officer, the dean of the University of Minnesota Medical School, faculty and department heads of the University Medical School (18 members), and individuals from the community at-large (4 members); and 2 nonvoting directors.

During the year ended June 30, 2006, UMPhysicians distributed $32,970 to the University. Complete financial statements for University of Minnesota Physicians can be obtained from the Chief Financial Officer, 720 Washington Avenue S.E., Suite 200, Minneapolis, MN 55414.

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

Component Units

The University's component units are nonprofit organizations, organized under IRS code section 501(c)(3). These units report under Financial Accounting Standards Board (FASB) standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information in the University's financial report for these differences. The component units' financial data has, however, been aggregated into like categories for presentation purposes and is shown in these statements in thousands, although in all cases except the University of Minnesota Physicians, the separately issued component units' financial statements are not rounded.

Financial Statement Presentation

The financial statements have been prepared in accordance with accounting principles prescribed by the Governmental Accounting Standards Board. These statements are prepared on a consolidated, entity-wide basis. All significant interfund balances have been eliminated upon consolidation.

Effective for the year ending June 30, 2006, the University adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The University is required to account for and report impairment losses of capital assets by writing the capital asset down to the lower of carrying value or fair value. In addition to impairments, the standard addresses the accounting treatment for insurance recoveries.

Also effective for the year ending June 30, 2006, the University adopted GASB Statement No. 47, *Accounting for Termination Benefits*. The University is required to disclose a description of termination benefits arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefits liabilities. This statement is effective in two parts. The second part will be implemented for the fiscal year ending June 30, 2008.

Basis of Accounting

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

As a GASB institution, the University has the option of applying pronouncements issued by the FASB after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to adopt FASB pronouncements issued after the applicable date.

Significant Accounting Policies

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

Investments—Investments in securities are reported at market value as determined by the major securities markets. Alternative investment strategies involving thinly traded securities are determined by the most recent purchase or sale price publicly available for that security. Private investments including real estate, timber, and venture capital are independently appraised annually and reported by investment managers as an updated estimate to that appraisal. As a result, these investments bear a greater risk that the reported value may be materially different from actual value. Purchases and sales of investments are recorded on a trade-date basis. Investment income is reported on the accrual basis and includes interest income and endowment income (interest earned on endowments but allocated to other funds). Realized and unrealized gains and losses are reported as a net increase (decrease) in the fair market value of investments.

Years ended June 30, 2006 and 2005 (in thousands)

The University uses derivative instruments for a variety of purposes. Financial futures are used to maintain investment portfolio asset allocations in accordance with institutional policy and to enhance the investment returns of certain asset classes. Forward foreign exchange contracts are used to hedge foreign currency exposure, while interest rate swaps are used to manage the cost of debt. Financial futures and forward foreign exchange contracts are recorded on the contract date and are carried at fair value using listed price quotations or amounts that approximate fair value. The University is required to post collateral, typically U.S. Treasury bills, for derivative contracts held. Collateral required by these contracts is monitored daily, and required deposits or withdrawals are made as necessary.

In general, the University follows the Uniform Management of Institutional Funds Act (UMIFA), as adopted in Minnesota, for donor-restricted endowments. Under UMIFA, the Board of Regents determines the prudent amount of realized and unrealized endowment appreciation to be allocated to fund current operations. Investment of the realized or unrealized appreciation in excess of the annual spending limits is discussed in Note 2.

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

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

Capital Assets—Land, buildings, and other property are recorded at cost, if purchased or constructed, or at market value on the date of gift, if received by gift or bequest. Depreciation is determined using the straight-line method, based on the estimated useful lives of the assets. No interest qualified for interest capitalization in fiscal years 2006 or 2005.

The following schedule summarizes the useful lives and capitalization threshold for capitalized, depreciable assets.

Asset category	Useful life (in years)	Capitalization threshold
Buildings and improvements	10–40	$50,000
Leasehold improvements	Lease term	50,000
Infrastructure	20–40	50,000
Equipment	3–20	2,500
Library and reference books	10	N/A

The University maintains certain collections (works of art or historical treasures) for public exhibition, education, or research in furtherance of public service. These collections are preserved, unencumbered, and cannot be disposed of for financial gain (proceeds from sales of collection items must be used to acquire other items for the collections). As such, certain collections are not capitalized for financial statement reporting purposes.

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

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

Net Assets—Net assets are reported in three components based upon the type of external restriction imposed.

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

- Restricted:

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

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

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

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

Revenue Classification—The University has classified revenues as operating or nonoperating based upon the following criteria:

- Operating revenues result from exchange activities. Exchange activities are transactions where the amount received approximates the fair market value of the goods or services given up. The University considers student tuition and fees (net of scholarship allowances), federal appropriations, most grants and contracts, interest on student loans, and sales and services of auxiliary and educational activities to be exchange transactions.

- Nonoperating revenues represent nonexchange activities. The primary sources of these revenues are state appropriations, gifts, capital grants, federal and state financial aid grants (such as Pell and Supplemental Educational Opportunity Grants), and other nonexchange grants and contracts. Although the institution relies upon these revenue sources to fund the cost of operations, the grantor or donor is not the direct recipient of the goods or services delivered under the grant or gift terms.

Expense Classification—The University has classified operating expenses based upon their functional classification. Operating expenses by natural classification are presented in Note 10.

During fiscal years 2006 and 2005, departmental research in nonsponsored accounts of $121,073 and $104,534, respectively, was recorded as research expense.

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

Reclassifications—Certain prior-year amounts have been reclassified to conform to the presentation used in the current year. These reclassifications had no impact on net assets as previously reported.

New Accounting Pronouncements

In June 2005, the GASB issued Statement No. 47, *Accounting for Termination Benefits*. The University will be required to disclose a description of termination benefit arrangements, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefits liabilities. This statement is effective in two parts. For termination benefits provided through an existing defined OPEB (other post-employment benefit) plan, the provisions of this statement will be implemented simultaneously with the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension*, for the fiscal year ending June 30, 2008. For all other termination benefits, this statement was effective for the fiscal year ended June 30, 2006.

Years ended June 30, 2006 and 2005 (in thousands)

2. Cash and Investments

Summary

The University maintains centralized management for substantially all of its cash and investments. With the exception of insurance reserves maintained by RUMINCO, Ltd.—the wholly owned insurance subsidiary (Note 9) and other funds whose terms require separate management—the invested assets of the University are managed through several internal investment pools. Each investment pool has a different set of objectives designed to maximize investment return within consistent risk parameters established for that pool.

In general, investment securities are exposed to various risks, such as credit, concentration of credit, custodial credit, interest rate, and foreign currency. Although the objective of each investment pool is to control risk and preserve capital, it is likely that changes in the values of investment securities will occur in the near term, and possible that such changes could materially affect the amounts reported in the consolidated financial statements.

Authorizations

The Board of Regents establishes the University's investment policies and objectives. The internal investment pools created under these guidelines to manage the invested assets of the University are described below.

Temporary Investment Pool (TIP) – Short-Term Reserves— The Temporary Investment Pool is invested to meet the current obligations of the University. The investment objective for the TIP is to maximize current income while preserving principal and maintaining liquidity. The pool is invested primarily in commercial paper, money market funds, corporate obligations, and U.S. government and agency securities within the credit quality and term constraints of the portfolio. In June 2006, the Board of Regents established a policy that allows for up to 30 percent of the pool to be invested in the Consolidated Endowment Fund (CEF)—a fund of predominantly equity investments managed by outside investment managers and whose investments may have limited liquidity. As of June 30, 2006, there were no TIP assets invested in CEF.

The TIP investments are guided by the following: average duration of three years or less for the entire portfolio and maximum duration of seven years for any individual holding; average credit quality of A1/A- or better; no use of leverage; and security ratings of investment grade (defined as Baa3/BBB- rating or better by Moody's or Standard & Poor's) unless the president or delegate specifically approves retention of a lower rated security. The TIP's average credit rating per Standard & Poor's Corporation is AAA- and is further broken down as follows:

Standard & Poor's rating	Market value 2006	Market value 2005
AAA	$559,346	$525,005
AA	14,826	15,137
A	4,321	19,169
BBB	58,348	41,374
BB	9,744	20,715
N/A	1,055	1,066
Total	$647,640	$622,466

Consolidated Endowment Fund (CEF)—The Consolidated Endowment Fund represents the pooling of funds from both public and private sources for which donor intent, law, or institutional decree determines the principal amount that must be invested either in perpetuity or other specified time frames. The funds are invested to achieve a return of at least 5 percent above inflation over a three- to five-year period. The allocation policy for this fund targets a 35 percent investment in domestic equities, 15 percent investment in international equities, 20 percent in fixed-income related investments, and 30 percent investment in other investments including, but not limited to, private capital (such as private equity, venture capital, and distressed debt), real assets (such as real estate partnerships, timberlands, oil and gas partnerships, and other investable commodities), and marketable alternatives (such as hedge funds, mezzanine debt, or high-yield debt).

The University's holdings in other investments are generally structured as equity investments in limited partnership interests (LPs). The University invests in these LPs as a means of obtaining a higher rate of return over a long period of time but at a lower volatility than has been exhibited by publicly traded equities. Interests in LPs are privately negotiated transactions and not actively exchanged, and purchases and sales of LP interests are rare.

The University receives liquidity from these investments through distributions from the general partners. Since the general partners maintain discretion over the timing of these distributions, the University is exposed to somewhat higher liquidity risk with respect to interests in LPs. The underlying investments of the LPs are valued at fair value as of June 30 based on quoted prices on national securities exchanges, independent appraisals, recent buys and sells if quoted prices or appraisals are not available, or at cost in the absence of an observable event. The LPs require a minimum commitment to buy in, which often ranges from $5 million to $10 million, and it is the University's practice to buy in at these levels or somewhat higher.

To maintain the allocation targets, the CEF may invest in various stock, bond, and currency futures contracts. The CEF's ratable credit risk, which was 9.16 percent of the pool in fiscal year 2006 compared with 8.60 percent in fiscal year 2005, consisted of debt securities that had an average Standard & Poor's rating of AA-.

The University distributes funds from the CEF to activities targeted by the endowment purpose. The distribution rate for fiscal year 2006 was 4.9 percent of a four-year moving average of the unit value of the fund. The distribution rate will decrease 10 basis points each year until the annual rate reaches 4.5 percent. Commencing in fiscal year 2007, the distribution calculation will use a five-year moving average of the unit value of the fund. When investment income is less than the distribution rate, accumulated capital gains are used to supplement investment income to meet the spending policy. If investment income exceeds the amount needed for distribution, the excess remains in the respective endowment funds.

Group Income Pool (GIP) – Long-Term Reserves— The Group Income Pool represents assets invested for the purpose of various auxiliary and support-service units as well as long-term capital purposes. The investment objective of the GIP is to maximize the total investment return while preserving capital balances until such time as the principal is required to fund the intended use; therefore, the GIP is invested in global, fixed-income securities through institutional mutual funds, and up to 50 percent of the pool can be invested in CEF. On June 30, 2006, there were no GIP assets invested in CEF.

Separately Invested Funds (SIF)—Separately invested funds represent endowment and other restricted assets that, by the terms of the gift or by administrative decision, cannot be combined with the major investment pools.

Invested Assets Related to Indebtedness (IARI)— Included in investments are the invested assets related to indebtedness that are held by the bond trustee primarily in the debt-service reserve funds of the outstanding University bond issuances. In addition, unspent bond proceeds held by the University are invested for short-term income until needed for the capital projects for which the bonds were issued. The market value of debt-related investments held by the bond trustee and internally managed was $10,000 and $11,000 on June 30, 2006 and 2005, respectively.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University of Minnesota's investment in a single issuer. The University has an established policy for CEF that limits the amount of funds that may be invested by any one investment management firm to 25 percent of the total endowment. A further policy limits any investment manager to holding no more than 5 to 7 percent of the portfolio in a single issuer. As a result of these policies, the largest holdings with a single issuer as of June 30, 2006 and 2005, were 0.39 percent and 0.38 percent of the endowment pool, respectively. The TIP's policy is to limit single issuer concentration to 7 percent. As of June 30, 2006 and 2005, no single issuer was above the 5 percent concentration threshold.

Custodial Credit Risk

Deposits—Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be returned to the University. The University does not have a deposit policy for custodial credit risk. As of June 30, 2006, $4,983 of the University's bank balance of $5,083 was uninsured and uncollateralized compared with the fiscal year ending June 30, 2005, when $20,521 of the balance of $20,621 was uninsured and uncollateralized.

Investments—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University's policy is to register investment securities in the name of the Board of Regents of the University of Minnesota.

Years ended June 30, 2006 and 2005 (in thousands)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the market value of the University's investments. The University's TIP policy limits investment duration, as a means of managing its exposure to market value losses arising from increasing interest rates. The University's investment in securities subject to this risk as of June 30, 2006, was as follows:

Investment type	Market value 2006	Average duration (years)
Government issues—agencies	$342,035	2.20
Corporate bonds	48,213	0.82
Mortgage backed securities	66,559	4.27
Other (primarily mutual funds)	58,073	4.90
Cash and cash equivalents	132,760	0.003
Total	$647,640	

The University's investment in securities subject to interest rate risk as of June 30, 2005, was as follows:

Investment type	Market value 2005	Average duration (years)
Government issues—agencies	$306,639	2.70
Corporate bonds	79,959	1.06
Mortgage backed securities	75,967	3.56
Other (primarily mutual funds)	39,535	4.02
Cash and cash equivalents	120,366	0.003
Total	$622,466	

Foreign Currency Risk

The University's exposure to foreign currency risk derives from its positions in foreign currency denominated investments. Changes in exchange rates can adversely affect the fair value of an investment. The University's investment policy permits it to target allocations for publicly traded international securities at 15 percent, with a range around this target of 10–20 percent. The University's exposure to foreign currency risk, stated in U.S. dollar equivalents, was as follows:

Investment type	Currency	Market value 2006	Market value 2005
Equity	Euro	$ 45,587	$ 42,695
Equity	Japanese yen	35,723	29,819
Equity	Great British pound sterling	30,194	27,263
Equity	Australian dollar	1,828	4,779
Equity	Canadian dollar	3,076	4,035
Equity	Swiss franc	3,399	3,514
Equity	Hong Kong dollar	3,471	2,648
Equity	Singapore dollar	529	2,388
Equity	Swedish krona	884	1,263
Equity	Danish krone	327	714
Equity	New Zealand dollar	126	584
Equity	South Korean won	388	236
Equity	Norwegian krone	457	164
Equity	Taiwan dollar	393	
Equity	Turkish lira	224	
Equity	Malaysian ringgit	201	
Futures	Euro	17	31
Total		$126,824	$120,133

As of June 30, 2006, the University had $6,078 in open foreign currency purchase contracts and $6,285 in open foreign currency sales contracts with a net market value of $(48). This compares with $6,991 in open foreign currency purchase contracts and $8,908 in open foreign currency sales contracts with a net market value of $(4) as of June 30, 2005.

Years ended June 30, 2006 and 2005 (in thousands)

The following summarizes cash, securities lending collateral, and investments, including the University's insurance subsidiary, on June 30, 2006.

	Temporary investment pool	Invested assets related to indebtedness	Securities lending program	Consolidated endowment fund	Group income pool	Separately invested funds	Insurance subsidiary	Total
Cash and cash equivalents*	$106,359	$ 864		$ 471	$ 7,921		$ 4,168	$ 119,783
Securities lending collateral			$60,803					60,803
Short-term investments	48,725	955						49,680
Total current assets	155,084	1,819	60,803	471	7,921	–	4,168	230,266
Restricted cash and cash equivalents								–
Investments—securities	466,156	8,028		529,560	23,554	$40	5,061	1,032,399
Investments—other				336,073			21,932	358,005
Total noncurrent assets	466,156	8,028	–	865,633	23,554	40	26,993	1,390,404
	$621,240	$9,847	$60,803	$866,104	$31,475	$40	$31,161	$1,620,670
Unrestricted amounts included above	$132,760	$ –	$15,922	$ –	$15,079	$ –	$31,161	$ 194,922

The following summarizes cash, securities lending collateral, and investments, including the University's insurance subsidiary, on June 30, 2005.

	Temporary investment pool	Invested assets related to indebtedness	Securities lending program	Consolidated endowment fund	Group income pool	Separately invested funds	Insurance subsidiary	Total
Cash and cash equivalents*	$122,133	$ 1,278		$ 4,539	$ 605		$ 2,093	$ 130,648
Securities lending collateral			$70,879					70,879
Short-term investments	34,744	905						35,649
Total current assets	156,877	2,183	70,879	4,539	605	–	2,093	237,176
Restricted cash and cash equivalents		1,046						1,046
Investments—securities	467,356	7,680		528,280	35,422	$42	22,527	1,061,307
Investments—other				228,753			4,105	232,858
Total noncurrent assets	467,356	8,726	–	757,033	35,422	42	26,632	1,295,211
	$624,233	$10,909	$70,879	$761,572	$36,027	$42	$28,725	$1,532,387
Unrestricted amounts included above	$136,092	$ –	$19,208	$ –	$16,717	$ –	$28,725	$ 200,742

**Temporary investment pool includes cash-in-transit of $(26,400) and $1,767 on June 30, 2006 and 2005, respectively.*

Unrestricted cash and investments include amounts that have not been restricted for specific purposes by grantors, donors, or law.

Securities Lending

To enhance the return on investments, the Board of Regents of the University has authorized participation in a global securities lending program. The program is managed by the University's custodian bank, which lends securities to approved broker-dealers in return for cash or other acceptable collateral. By contractual agreement, the level of collateralization must be at least 100 percent of the market value of the securities loaned. Types of securities lent include domestic and foreign equities and domestic government, agency, and corporate bonds, as well as foreign, sovereign, fixed-income securities. Collateral received is generally in the form of cash, although U.S. government or agency securities, sovereign debt (rated A or better), convertible bonds, and irrevocable bank letters of credit are also acceptable forms of collateral. The University retains all rights to ownership of the loaned securities and receives all dividend and interest income. Neither the University nor its securities lending agent has the ability to pledge or sell collateral securities unless a borrower defaults.

In accordance with GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, the University records the market value of the collateral as an asset in the balance sheet along with a corresponding liability. The University had loaned securities with market values of approximately $59,081 and $68,482 on June 30, 2006 and 2005, respectively. These loaned securities were supported by collateral of approximately $60,803 and $70,879, which is included as securities lending collateral in the consolidated statements of net assets on June 30, 2006 and 2005, respectively. Of this collateral amount, approximately $58,189 and $68,836 was cash and approximately $2,614 and $2,043 was acceptable noncash collateral on June 30, 2006 and 2005, respectively.

In general, since the value of collateral received exceeded the market value of the securities on loan, the University's credit risk was minimal. The University and the borrowers of its securities maintain the right to terminate all securities lending transactions on demand. The cash collateral received on each loan is invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The average duration of such pools was 56 and 35 days as of June 2006 and 2005, respectively. Since the loans are terminable at will, their duration does not generally match the duration of the investments made with the cash collateral. If the University must terminate a term loan, the lending agent has the ability to substitute the same security from a different client while returning the University's security.

Income and cost from its participation in this securities lending program were $2,384 and $2,364, respectively, for the year ended June 30, 2006, and $1,531 and $1,332 for the year ended June 30, 2005.

Years ended June 30, 2006 and 2005 (in thousands)

3. Other Asset and Liability Information

Receivables, net, and student loans receivable on June 30, 2006, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$108,630		$108,630
Sponsored grants and contracts	74,261		74,261
Notes receivable	200	$ 1,149	1,349
Student receivables	36,388		36,388
Trade receivables	71,045		71,045
Accrued interest	5,926		5,926
Other	11,648		11,648
Allowance for uncollectible accounts	(9,096)		(9,096)
Total receivables, net	$299,002	$ 1,149	$300,151
Student loans receivable	15,721	56,058	71,779
Allowance for uncollectible accounts	(2,225)	(561)	(2,786)
Student loans receivable, net	$ 13,496	$55,497	$ 68,993

Accrued liabilities on June 30, 2006, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 8,092		$ 8,092
Compensation and benefits	149,854	$20,251	170,105
Self-insurance reserves	19,815	9,762	29,577
Accrued interest	2,920	332	3,252
Refundable advances		56,807	56,807
Other	26,359		26,359
Total accrued liabilities	$207,040	$87,152	$294,192

Activity for certain liabilities on June 30, 2006, consisted of the following:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Compensated balances (excluding pensions, see Note 6)	$146,813	$150,073	$(137,377)	$159,509	$148,277
Self-insurance reserves (see Note 9)	29,759	175,243	(175,425)	29,577	19,815
Refundable advances	58,080		(1,273)	56,807	
Other	20,634	26,313	(20,588)	26,359	26,359

Years ended June 30, 2006 and 2005 (in thousands)

Receivables, net, and student loans receivable on June 30, 2005, consisted of the following:

	Current	Noncurrent	Total
State and federal appropriations	$109,537		$109,537
Sponsored grants and contracts	74,286		74,286
Notes receivable	78	$ 1,337	1,415
Student receivables	39,096		39,096
Trade receivables	45,596		45,596
Accrued interest	4,802		4,802
Other	7,459		7,459
Allowance for uncollectible accounts	(9,285)		(9,285)
Total receivables, net	$271,569	$ 1,337	$272,906
Student loans receivable	14,943	58,193	73,136
Allowance for uncollectible accounts	(2,625)	(582)	(3,207)
Student loans receivable, net	$ 12,318	$57,611	$ 69,929

Accrued liabilities on June 30, 2005, consisted of the following:

	Current	Noncurrent	Total
Trade liabilities	$ 14,414	$ 3,290	$ 17,704
Compensation and benefits	136,685	21,246	157,931
Self-insurance reserves	18,012	11,747	29,759
Accrued interest	2,499	332	2,831
Refundable advances		58,080	58,080
Other	20,634		20,634
Total accrued liabilities	$192,244	$94,659	$286,939

Activity for certain liabilities on June 30, 2005, consisted of the following:

	Beginning balance	Additions	Reductions	Ending balance	Current portion
Compensated balances (excluding pensions, see Note 6)	$137,322	$135,634	$(126,143)	$146,813	$135,101
Self-insurance reserves (see Note 9)	36,878	154,773	(161,892)	29,759	18,012
Refundable advances	57,548	532		58,080	
Other	20,166	20,391	(19,923)	20,634	20,634

Years ended June 30, 2006 and 2005 (in thousands)

4. Capital Assets

Capital assets, net on June 30, 2006, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable capital assets					
Buildings and improvements	$2,346,286	$ 429	$ 67,273	$(11,357)	$2,402,631
Leasehold improvements	1,309		111		1,420
Equipment	561,241	48,494	75	(50,863)	558,947
Infrastructure	305,496		21,318		326,814
Library and reference books	104,114	11,966		(9,076)	107,004
Total depreciable capital assets	3,318,446	60,889	88,777	(71,296)	3,396,816
Non-depreciable capital assets					
Land	46,166	12,671	(845)	(37)	57,955
Museums and collections	36,804	1,623			38,427
Construction in progress	54,266	69,028	(87,932)	(1,786)	33,576
Total non-depreciable capital assets	137,236	83,322	(88,777)	(1,823)	129,958
Accumulated depreciation					
Buildings and improvements	991,164	67,450		(5,218)	1,053,396
Leasehold improvements	520	180			700
Equipment	369,903	48,004		(45,776)	372,131
Infrastructure	132,598	9,930			142,528
Library and reference books	50,176	10,556		(9,076)	51,656
Total accumulated depreciation	1,544,361	136,120	–	(60,070)	1,620,411
Net capital assets	$1,911,321	$ 8,091	$ –	$(13,049)	$1,906,363
Summary					
Depreciable capital assets	$3,318,446	$60,889	$ 88,777	$(71,296)	$3,396,816
Non-depreciable capital assets	137,236	83,322	(88,777)	(1,823)	129,958
Total capital assets	3,455,682	144,211	–	(73,119)	3,526,774
Less accumulated depreciation	1,544,361	136,120	–	(60,070)	1,620,411
Capital assets, net	$1,911,321	$ 8,091	$ –	$(13,049)	$1,906,363

Years ended June 30, 2006 and 2005 (in thousands)

Capital assets, net on June 30, 2005, consisted of the following:

	Beginning balance	Additions	Transfers	Retirements	Ending balance
Depreciable capital assets					
Buildings and improvements	$2,212,809		$134,580	$ (1,103)	$2,346,286
Leasehold improvements	1,126		183		1,309
Equipment	539,608	$52,594	11,210	(42,171)	561,241
Infrastructure	291,852		13,958	(314)	305,496
Library and reference books	101,610	11,583		(9,079)	104,114
Total depreciable capital assets	3,147,005	64,177	159,931	(52,667)	3,318,446
Non-depreciable capital assets					
Land	39,467	5,934	770	(5)	46,166
Museums and collections	35,601	1,203			36,804
Construction in progress	107,170	108,215	(160,701)	(418)	54,266
Total non-depreciable capital assets	182,238	115,352	(159,931)	(423)	137,236
Accumulated depreciation					
Buildings and improvements	929,645	62,622		(1,103)	991,164
Leasehold improvements	350	170			520
Equipment	364,189	44,759		(39,045)	369,903
Infrastructure	123,344	9,254			132,598
Library and reference books	48,969	10,286		(9,079)	50,176
Total accumulated depreciation	1,466,497	127,091	–	(49,227)	1,544,361
Net capital assets	$1,862,746	$52,438	$ –	$ (3,863)	$1,911,321
Summary					
Depreciable capital assets	$3,147,005	$64,177	$159,931	$(52,667)	$3,318,446
Non-depreciable capital assets	182,238	115,352	(159,931)	(423)	137,236
Total capital assets	3,329,243	179,529	–	(53,090)	3,455,682
Less accumulated depreciation	1,466,497	127,091	–	(49,227)	1,544,361
Capital assets, net	$1,862,746	$52,438	$ –	$ (3,863)	$1,911,321

Years ended June 30, 2006 and 2005 (in thousands)

5. Long-term Debt

Long-term debt on June 30, 2006, consisted of the following:

	Interest rate	Due at various dates through	Beginning balance	Additions	Reductions	Ending balance	Current portion
General obligation bonds							
Series 2004A	4.86%	2010	$ 21,991		$ 3,184	$ 18,807	$ 3,474
Series 2003A	4.39%	2031	69,950		1,450	68,500	1,500
Series 2001C	4.40%	2008	150,050		5,300	144,750	57,900
Series 2001B	4.33%	2007	2,645		325	2,320	2,320
Series 2001A	3.08%	2007	10,085		2,375	7,710	7,710
Series 1999A	4.16%	2009	166,400		9,450	156,950	52,317
Series 1996A	4.50%–5.75%	2006	165,630		165,630	–	
Commercial paper notes, Series A	3.15%–3.65%	2007		$159,100		159,100	159,100
Obligations to the State of Minnesota pursuant to infrastructure development bonds	4.00%–6.90%	2025	67,716	1,103	5,611	63,208	5,449
Auxiliary revenue bonds	3.00%	2013	8,405		905	7,500	955
Capital leases and other	1.72%–8.00%	2014	4,079	1,801	1,778	4,102	1,238
Total			$666,951	$162,004	$196,008	$632,947	$291,963

Long-term debt on June 30, 2005, consisted of the following:

	Interest rate	Due at various dates through	Beginning balance	Additions	Reductions	Ending balance	Current portion
General obligation bonds							
Series 2004A	4.86%	2010		$22,231	$ 240	$ 21,991	$ 3,184
Series 2003A	4.39%	2031	$ 71,000		1,050	69,950	1,450
Series 2001C	4.40%	2008	155,100		5,050	150,050	42,871
Series 2001B	4.33%	2006	2,955		310	2,645	2,645
Series 2001A	3.08%	2006	12,370		2,285	10,085	10,085
Series 1999A	4.16%	2006	175,450		9,050	166,400	166,400
Series 1996A	4.50%–5.75%	2006	171,669		6,039	165,630	165,630
Obligations to the State of Minnesota pursuant to infrastructure development bonds	4.00%–6.90%	2022	61,924	11,359	5,567	67,716	5,549
Auxiliary revenue bonds	3.00%	2013	9,260		855	8,405	905
Capital leases and other	1.72%–8.00%	2011	5,226	712	1,859	4,079	1,300
Total			$664,954	$34,302	$32,305	$666,951	$400,019

General Obligation Bonds

In November 2001, the Board of Regents of the University of Minnesota (Board of Regents) authorized the issuance of new general obligation debt securities to provide funds for certain approved capital projects, costs of issuance, and refunding of the Series 1993A bonds. Of the $501,000 of debt authorized under the February 2001 and November 2001 resolutions, $380,600 was issued for the Series 1999A and 2001 bonds, $71,000 was issued for the 2003A bonds for the refunding of the Series 1993A bonds, and $20,720 was issued for the Series 2004A bonds, with $28,680 remaining unissued.

On July 21, 2004, the University issued $20,720 in General Obligation Intermediate Term Financing Program Bonds, Series 2004A. The bond proceeds were applied to the purchase of equipment and related services in connection with the upgrade of the University's Twin Cities campus data network, as well as a portion of the acquisition cost of certain property operated as an office building on the Twin Cities campus. The bonds were issued at coupon rates of 4–5 percent, with a premium of $1,511.

Under generally accepted accounting principles, the Series 2001A, 2001B, 2001C, and 1999A bonds are defined as demand bonds because bondholders have the option to put the bonds back to (demand repayment from) the University at any time. In the absence of standby bond purchase agreements, the University has classified the entire obligation of the Series 2001A and 2001B bonds as current liabilities. At the date of this report, none of the bondholders had exercised the put option. Thus, management believes that the bond obligations will continue to be met in accordance with the longer term payment schedules provided within the bond prospectuses.

In December 2003, the University entered into a standby bond purchase agreement to provide liquidity support for the Series 2001C bonds. The agreement requires the banks to provide funds for the purchase of Series 2001C bonds that have been tendered or deemed tendered and not remarketed subject to certain conditions. The available principal commitment was initially the aggregate principal amount of the Series 2001C bonds outstanding of $150,050, but is reduced annually in the same amount as the annual principal reduction on the bonds. The agreement, which expires on December 16, 2008, provides for 10 equal semiannual installments, at six-month intervals, of the bonds put back to the banks holding the agreement. No amounts had been drawn under this agreement through June 30, 2006.

In June 2004, the University entered into a standby bond purchase agreement to provide liquidity support for the Series 1999A bonds. The available principal commitment was initially the aggregate principal amount of the Series 1999A bonds outstanding of $166,400, but this is reduced annually in the same amount as the annual principal reduction on the bonds. The agreement provides for six equal semiannual installment payments on June 1 and December 1. No amounts had been drawn under this agreement through June 30, 2006. In May 2006, this agreement was extended for an additional three-year term, with an expiration date of June 12, 2009.

In July 2006, the Board of Regents approved a resolution authorizing the issuance of bonds in one or more series in the principal amount of up to $137,250. The proceeds of the bonds are to be used to finance a portion of the cost of a football stadium on the Twin Cities campus and to pay costs of issuance. State funding of up to $10,250 per year for no more than 25 years is to be provided to reimburse the University for the annual debt service on these bonds. The bonds are expected to be issued subsequent to the date of the financial statements.

All general obligation bonds are secured by the full faith and credit of the University and subject to mandatory sinking fund requirements set forth in the prospectuses. In addition, the bonds are tax-exempt with the exception of the Series 2001B bonds.

Commercial Paper Notes

On October 4, 2005, the University issued $159,100 in tax-exempt Commercial Paper Notes, Series A, to refund the General Obligation Bonds, Series 1996A, and to pay costs of issuance. The proceeds were used to defease the remaining outstanding Series 1996A bonds as required under the terms of a put option exercised by Goldman Sachs & Co. In addition, the integrated fixed to floating interest-rate swap agreement on these bonds was also terminated.

In December 2005, the Board of Regents authorized the issuance of additional commercial paper in the principal amount of up to $61,000 to provide funds to finance purchases of land, buildings, construction, and remodeling projects, and for the acquisition and installation of equipment by the University. No amounts have been issued under this program to date.

Auxiliary Bonds

The University's auxiliary bonds are secured by the net revenues of the auxiliary activity to which they relate, debt-service subsidy grants provided by the U.S. Department of Housing and Urban Development, and the full faith and credit of the University. The auxiliary bond agreements require minimum mandatory reserves sufficient to cover the principal and interest due in any future fiscal year. To comply with this requirement, the University set aside $1,209 on June 30, 2006, and $1,182 on June 30, 2005, for future debt service. An additional $8,637 and $8,682 was set aside for building replacement reserves for June 30, 2006 and 2005, respectively. These mandatory reserves are included in restricted expendable net assets in the financial statements.

Infrastructure Development Bond Obligations

Pursuant to Minnesota law, the University is obligated to pay the state one third of the debt services of infrastructure development bonds issued by the state for University capital projects. The amount of outstanding debt issued by the state on behalf of the University was $189,624 as of June 30, 2006, and $203,148 as of June 30, 2005.

Capital Leases and Other Debt

Capital leases and other commitments consist of fleet vehicle leases and a real estate contract for deed. The leases bear interest rates between 1.72 percent and 8.00 percent, with none extending beyond 2014. The real estate contract for deed bears interest at 8.00 percent and is due in 2011.

Interest Rate Swaps

In order to protect against future interest rate fluctuations on the University's general obligation bonds, and for budgeting purposes, the University has entered into eight separate interest rate swaps. All of these are *pay fixed and receive variable* interest rate swaps, which effectively changes the University's variable interest rate bonds to synthetic fixed-rate bonds.

The University treats the integrated swaps associated with the issuance of the 2001A, 2001C, and 2003A variable-rate bonds as qualified hedges with respect to these bonds.

The notional amounts of the swaps match the principal amounts of the associated bond issuance. The University's swap agreements contain scheduled reductions to outstanding notional amounts that match scheduled reductions in the associated bond issuance. The fair value was provided by the swap counterparties.

The terms, fair values, and credit rating of the outstanding swaps as of June 30, 2006, are as follows:

Years ended June 30, 2006 and 2005 (in thousands)

Associated bond issue	Nature of association	Notional amounts	Effective date	Fixed rate	Variable rate	Swap type	Fair value	Swap termination date
2003A	Integrated	$ 68,500	12/04/2002	4.39%	BMA Index**	Pay fixed and receive variable	$ 3,510	08/15/2031
2001C	Integrated	144,750	01/09/2002	4.40%	WAR*	Pay fixed and receive variable	7,007	12/01/2036
2001B	Nonintegrated	2,320	11/13/2001	4.33%	WAR*	Pay fixed and receive variable	(71)	07/01/2011
2001A	Integrated	7,710	11/13/2001	3.08%	WAR*	Pay fixed and receive variable	(49)	07/01/2008
1999A	Nonintegrated	156,950	02/17/1999	4.16%	WAR*	Pay fixed and receive variable	4,009	01/01/2034
		$380,230					$ 14,406	
Other hedging activities								
	Freestanding	70,000	08/27/1997	4.98%	BMA Index**	Pay fixed and receive variable	(5,672)	08/27/2017
	Freestanding	37,500	08/28/1997	4.88%	BMA Index**	Pay fixed and receive variable	(2,450)	08/28/2012
	Freestanding	37,500	09/01/1997	4.90%	BMA Index**	Pay fixed and receive variable	(2,525)	07/01/2012
		$145,000					$(10,647)	

* *WAR refers to the weighted average rate paid on the associated bond issue.*

** *BMA Index refers to the Bond Market Association Municipal Swap Index.*

The University has swap transactions with three separate counterparties. The percentage of the notional amount of swaps outstanding on June 30, 2006, for each counterparty is 72, 21, and 7 percent, while these counterparties are rated A1, Aa3, and Aa3, respectively, by Moody's.

The University or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the associated variable-rate bonds would no longer carry synthetic interest rates. Also, if at the time of termination the swap had a negative fair value, the University would be liable to the counterparty for a payment equal to the fair value of the swap.

The swap contracts with positive fair values are exposed to credit risk. The University faces a maximum possible loss equivalent to the amount of the derivatives' fair value should the counterparty not perform under the terms of the swap agreements. The swap contracts with negative fair values are not exposed to credit risk.

In addition, the University is exposed to termination risk on one of the freestanding swaps. The freestanding swap with a notional amount of $70,000 allows the counterparty to terminate the swap agreement if the variable rate paid by the counterparty to the University averages above 7 percent for any rolling consecutive 90-day period.

As rates vary, variable-rate bond interest payments and net swap payments will vary. Using rates as of June 30, 2006, debt service requirements of the University's outstanding long-term debt obligations and net swap payments are as follows.

Years ended June 30, 2006 and 2005 (in thousands)

Long-term debt obligations for the next five years and in subsequent five year periods:

	Bonds and obligations	Commercial paper notes	Capital lease and other	Total principal	Interest	Net interest rate swaps	Total obligations
Fiscal year ending June 30							
2007	$131,625	$159,100	$ 1,238	$291,963	$ 35,547	$ 2,386	$329,896
2008	121,570		985	122,555	23,991	2,036	148,582
2009	93,260		776	94,036	11,641	1,763	107,440
2010	11,862		529	12,391	5,751	1,652	19,794
2011	12,159		331	12,490	5,134	1,649	19,273
2012–2016	32,831		243	33,074	19,264	5,450	57,788
2017–2021	24,421			24,421	12,372	1,758	38,551
2022–2026	18,017			18,017	7,525	646	26,188
2027–2031	19,500			19,500	3,633	276	23,409
2032–2036	4,500			4,500	198	2	4,700
	$469,745	$159,100	$4,102	$632,947	$125,056	$17,618	$775,621

Defeased Bonds

In previous years, the University defeased various bonds by placing the proceeds from new bond issuances into an irrevocable trust to provide for all future debt-service payments on the old bonds. The defeased bonds are as follows:

	Amount defeased	Amount outstanding at June 30, 2006
General obligation bonds 1982 Series A	$112,635	$ 26,570
General obligation bonds 1996 Series A	$159,000	$159,000

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

6. Pension Plans

Description of Plans

The University contributes to a single-employer defined contribution plan—the Faculty Retirement Plan (FRP)—and two cost-sharing, multiple-employer, defined-benefit plans—the State Employees' Retirement Fund (SERF) of the Minnesota State Retirement System and the Public Employee Police and Fire Fund (PEPFF) of the Public Employees Retirement Association pension plans. Some employees eligible for the FRP may be eligible for additional benefits from the University of Minnesota Supplemental Benefits Plan (SBP), which is a single-employer defined benefit plan. For faculty members employed prior to 1963 and for female participants employed prior to July 1, 1982, the SBP is funded in an amount equal to or greater than the amount required under Chapter 356 of the Minnesota Statutes. All SBP participants are retired. Each plan provides retirement, disability, and death benefits to plan members and beneficiaries.

SERF and PEPFF each issue a publicly available financial report that includes financial statements and required supplementary information for each plan. These reports may be obtained by writing or calling the plans, as follows:

Minnesota State Retirement System
60 Empire Drive, Suite 300
St. Paul, MN 55103
651-296-2761

Public Employees Retirement Association
60 Empire Drive, Suite 200
St. Paul, MN 55103
651-296-7460 or 1-800-652-9026

Years ended June 30, 2006 and 2005 (in thousands)

Funding Policy and Annual Pension Cost

The University's annual pension cost and related information for each plan is as follows:

	FRP	SERF	PEPFF	SBP
University contributions—fiscal year ended June 30				
2006	$80,592	$14,868	$362	$458
2005	62,472	14,555	326	416
2004	56,713	13,661	310	425
2003	57,575	14,151	272	416
Current contribution rates				
University	13.0%	4.0%	10.5%	
Plan members	2.5%	4.0%	7.0%	
Annual pension cost—fiscal year ended June 30				
2005	N/A	$14,555	$326	$325
2004	N/A	13,661	310	603
2003	N/A	14,151	272	(10)
2002	N/A	13,672	257	228
Actuarial valuation date	N/A	6/30/05	6/30/05	7/01/05
Actuarial cost method	N/A	Entry age	Entry age	Entry age
Amortization method	N/A	Level percentage of salary, open	Level percent, closed	Level dollar amount by 6/30/21, closed
Remaining amortization period	N/A	30 years	15 years	30 years
Asset valuation method	N/A	Fair market value, smoothed over 5 years	Fair market value, smoothed over 5 years	Fair market value, smoothed over 4 years
Actuarial assumptions				
Investment rate of return	N/A	8.5%	8.5%	5.0%
Projected salary increase	N/A	5.25%–6.75%	5.25%–11.5%	3.5%
Assumed inflation rate	N/A	No assumption	5.0%	2.5%
Cost of living adjustment	N/A	2.5%	No assumption	Determined by formula, varies

These contribution amounts are equal to contractually required contributions for each year in compliance with state statute. The University makes all contributions to the SBP using a variable rate.

The following information pertains to the SBP as of July 1:

	2005	2004	2003
Pension benefit obligation	$10,596	$11,118	$11,741
Net assets available for benefits	5,590	6,245	7,047
Unfunded accrued liability	$ 5,006	$ 4,873	$ 4,694
Funded ratio (net assets as a percentage of the pension benefit obligation)	52.76%	56.17%	60.02%

The actuarial present value of accumulated plan benefits in the SBP was not calculated.

The plans invest in various securities including U.S. government securities, corporate debt instruments, mutual funds, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported for net assets available for plan benefits.

7. Related Organization

The University is responsible for appointing nine members of the 15-member Board of Directors of UCare Minnesota, a licensed nonprofit HMO (health maintenance organization) that provides medical services for its members. The University's accountability for this organization, however, does not extend beyond making Board appointments. The dean of the University of Minnesota Medical School and the head of the University's Department of Family Medicine and Community Health appoint six board members; three members are automatically appointed by virtue of the University positions that they hold. During fiscal year 2006, UCare Minnesota contributed $1,600 to the Department of Family Medicine and Community Health.

8. Commitments and Contingencies

On December 31, 1996, the University of Minnesota Hospital and Clinic (UMHC) operations and certain assets and liabilities were transferred to University of Minnesota Medical Center, Fairview (Fairview). Fairview and the University also agreed to affiliate with each other in support of research, education, and patient care missions of the University's Academic Health Center (AHC). Under this affiliation agreement, the University shares equally with Fairview in any unfunded education costs at the teaching hospital.

The University also provides certain services to Fairview, and Fairview provides certain services to the University, to be reimbursed at negotiated rates. These services include items such as utilities, mailing and addressing services, police protection, printing services, miscellaneous services related to telecommunications, and such other items as are necessary to support the relationship, for which $6,798 and $6,040 was billed to Fairview in fiscal years 2006 and 2005, respectively. Fairview billed the University $488 and $429 in fiscal years 2006 and 2005, respectively, for pharmaceuticals, medical professionals, and transcription services.

Construction projects in progress, principally buildings, approximated $33,576 on June 30, 2006. The estimated cost to complete these facilities is $173,667, which is to be funded from plant fund assets and $124,177 in appropriations available from the State of Minnesota as of June 30, 2006.

The University owns steam production facilities that produce steam for heating and cooling the Twin Cities campus, which by agreement are managed, operated, and maintained by an unaffiliated company. The term of the agreement is for five years and began May 17, 2004. Under the agreement, the University must make minimum fixed payments for certain operating and maintenance costs, as well as contingent payments based upon performance requirements.

Years ended June 30, 2006 and 2005 (in thousands)

The University is obligated under various operating leases for the use of real property and equipment. Total operating lease expenditures for the years ended June 30, 2006 and 2005, were $15,703 and $16,294, respectively, of which $13,093 and $13,688 were for real property and $2,610 and $2,606 were for equipment, respectively.

The future commitments as of June 30, 2006, are as follows:

Steam plant and operating lease commitments are listed for the next five years and in subsequent five-year periods:

	Steam plant	Operating leases	Total
Fiscal year ending June 30			
2007	$ 791	$ 8,812	$ 9,603
2008	742	8,399	9,141
2009	650	7,657	8,307
2010		4,600	4,600
2011		4,053	4,053
2012–2016		10,904	10,904
Total commitments	2,183	44,425	46,608
Less current portion	(791)	(8,812)	(9,603)
Long-term commitments	$1,392	$35,613	$37,005

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

9. Self-Insurance Programs

The University is self-insured for medical malpractice, general liability, directors and officers liability, and automobile liability through RUMINCO, Ltd., a wholly owned insurance subsidiary (see Note 2). Claims are reported to a third-party administrator, which pays expenses and sets up reserves. The total expense of a claim is estimated and booked as a liability when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated in the year in which it is reported. In addition, an actuarial liability is established for incurred but not reported (IBNR) claims.

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

The University's medical (health) coverage for faculty and staff is a self-insured program (UPlan). Under the medical UPlan, the University pays claims and establishes reserves, and the administration of the program is handled by three independent administrators: Medica and HealthPartners for medical plan administration and RxAmerica for pharmacy benefit management. Two carriers provide the University with medical conversion policies, under which terminated employees are able to convert their UPlan coverage to single coverage once their COBRA rights expire. The University also carries stop-loss coverage, which protects the University against the risk that an individual participant will incur medical expenses greater than $600,000 in a single year. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded.

Years ended June 30, 2006 and 2005 (in thousands)

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

Effective September 1, 2004, the University changed its medical coverage for eligible graduate assistants from a fully insured program to a self-insured program. Under the graduate assistant medical plan, the University pays claims and establishes reserves. The program is administered by Blue Cross and Blue Shield of Minnesota. An annual actuarial estimate of the University's liability for medical claims, including IBNR, is recorded.

Effective September 1, 2005, the University negotiated a new student health plan for the Academic Health Center. The plan is self-insured and the health carrier is Blue Cross and Blue Shield of Minnesota. An estimated reserve ensures that funds are available to cover claims up to the point where stop-loss coverage begins.

Changes in reported liabilities since June 30, 2005, are shown below:

	Liability beginning of year	New claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 6,306	$ 2,474	$ (2,133)	$ 82	$ 6,729
Workers' compensation	9,000	2,312	(2,676)	(1,636)	7,000
UPlan medical	12,365	143,003	(138,394)	(3,481)	13,493
UPlan dental	757	13,308	(13,015)	(253)	797
Graduate assistant health plan	757	13,831	(13,831)	(6)	751
Student health plan	574			233	807

Changes in reported liabilities since June 30, 2004, are shown below:

	Liability beginning of year	New claims	Claim payments	Other adjustments	Liability end of year
RUMINCO, Ltd.	$ 7,459	$ 1,860	$ (3,059)	$ 46	$ 6,306
Workers' compensation	11,000	2,918	(3,229)	(1,689)	9,000
UPlan medical	17,950	126,625	(126,448)	(5,762)	12,365
UPlan dental	469	12,679	(12,342)	(49)	757
Graduate assistant health plan		9,314	(9,314)	757	757
Student health plan				574	574

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

Years ended June 30, 2006 and 2005 (in thousands)

10. Operating Expenses by Natural Classification

Operating expenses by natural classification for June 30, 2006, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 532,423	$ 88,932			$ 621,355
Research	322,615	156,145			478,760
Public service	119,892	62,209			182,101
Academic support	224,226	70,212			294,438
Student services	65,170	14,796			79,966
Institutional support	110,842	16,258			127,100
Operation and maintenance of plant	92,188	99,733			191,921
Scholarships and fellowships	2,680	909	$67,382		70,971
Depreciation				$136,120	136,120
Auxiliary enterprises	73,723	111,895			185,618
Other operating expense		(277)			(277)
	$1,543,759	$620,812	$67,382	$136,120	$2,368,073

Operating expenses by natural classification for June 30, 2005, are summarized as follows:

Function	Compensation and benefits	Supplies and services	Scholarships and fellowships	Depreciation	Total
Instruction	$ 506,485	$ 74,812			$ 581,297
Research	311,521	153,372			464,893
Public service	112,233	61,597			173,830
Academic support	203,102	62,429			265,531
Student services	60,605	13,420			74,025
Institutional support	96,479	12,423			108,902
Operation and maintenance of plant	82,043	82,580			164,623
Scholarships and fellowships	3,386	363	$66,108		69,857
Depreciation				$127,091	127,091
Auxiliary enterprises	68,981	101,562			170,543
Other operating expense		646			646
	$1,444,835	$563,204	$66,108	$127,091	$2,201,238

11. Component Units

The significant accounting policies and related note disclosures for investments, securities lending, temporarily restricted net assets, and permanently restricted net assets, as reported in the separately issued financial statements of the University of Minnesota Foundation (UMF) and the Minnesota Medical Foundation (MMF), as well as disclosures for guarantee agreements and financing agreements for the University Gateway Corporation (Gateway), are presented below.

Summary of Significant Accounting Policies

University of Minnesota Foundation

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at rates of 2.65 to 5.15 percent based on when the contribution was made. Amortization of discounts is recorded as additional contribution revenue. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history.

Contributions as stated in the statement of activities include $1,221 of indirect support received by UMF.

Unitrusts, Pooled Income, and Annuity Trusts

UMF has entered into unitrust, pooled income, and annuity agreements that provide, among other matters, that the trustee shall pay to the beneficiaries an annual income payment until the income obligation is completed in accordance with the donor's trust agreement. UMF records its interest in these trusts at the current market value of the related assets and a corresponding liability recorded for the actuarially determined present value of payments to be made to the designated beneficiaries with the residual amount recorded for the purposes designated when the gift is received. Upon termination of the income obligation, property in the trust or pooled income fund is held by UMF in accordance with the donor's trust agreement.

Gift Annuity Agreements

UMF has entered into gift annuity agreements that provide that UMF shall pay to the designated beneficiaries an annual amount until the death of the designated beneficiaries. The payments continue even if the assets of the gift annuity fund have been exhausted. UMF records these gift annuities at market value, and a corresponding liability is recorded for the actuarially determined present value of payments to be made to the designated beneficiaries, with the residual amount recorded for the purposes designated when the gift is received. Upon the death of the beneficiaries, property in the gift annuity fund is held by UMF in accordance with the agreements.

Minnesota Medical Foundation

Contributions

Contributions, which include pledges, are recognized as revenues in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor.

Pledges are recorded as pledges receivable using discount rates ranging from 3.5 to 5.1 percent. Additionally, an allowance for uncollectible pledges is provided based on management's judgment, including factors such as aging schedules, prior collection history, and the nature of fund-raising activity.

Investments, fixed assets, and contributed materials are initially recorded at fair value when received.

Contributions with donor-imposed conditions, such as time or purpose restrictions, are recorded as temporarily restricted net assets. When donor-imposed time conditions expire, or a donor-imposed purpose restriction is fulfilled, the temporarily restricted net assets are reclassified to unrestricted net assets. This reclassification is reported as net assets released from restriction on the statement of activities.

Years ended June 30, 2006 and 2005 (in thousands)

Investments

University of Minnesota Foundation

Investments in marketable equity and debt securities are carried at fair value as established by the major securities markets. Investments for which quoted market prices are not available are carried at values provided by the respective fund managers or general partners. These valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. The estimated values as determined by the fund managers and general partners may differ from the values that would have been used had ready markets for the investments existed, and the differences could be significantly higher or lower for any specific holding. UMF reviews the valuations provided by the fund managers and general partners for reasonableness.

Donated investments are recorded at their fair values, as determined on the date of donation. Investment income and gains and losses are recorded in the period incurred.

For management efficiency, investments of the unrestricted and restricted net assets are pooled, except for certain net assets that the board of trustees or the donors have designated to be segregated and maintained separately.

The investments on June 30, 2006, are summarized as follows:

	Traditional structures	Alternative structures	
Values based on quoted market prices or alternative structures with underlying investments whose values are based on quoted market prices			
Cash and cash equivalents	$ 62,205		
Treasury inflation protected securities (TIPS)	39,709		
Fixed income corporate bonds	89,273		
U.S. equity	246,615	$ 73,040	
Foreign equity		26,654	
Hedge funds		23,983	
Subtotal	437,802	123,677	
Values based on estimates provided by fund managers or general partners			
Hedge funds		213,708	
Natural resources		57,086	
Real estate		71,657	
Private equity		251,521	
Foreign equity exposure		37,158	
Treasury inflation protected securities (TIPS)		9,774	
U.S. equity exposure		27,397	
Subtotal	–	668,301	
Total	$437,802	$791,978	$1,229,780

Other investments not categorized above	5,343
Less investments loaned to broker	(62,918)
Less charitable gift annuities reported separately	(25,475)
Total	$1,146,730

Years ended June 30, 2006 and 2005 (in thousands)

Investments held in traditional structures represent those held directly by the UMF in custodial accounts with financial institutions. Investments held in alternative structures include those held through interests in collective trust funds, limited partnerships, commingled funds, and limited liability companies.

Investments included funds held for the custody of others of $58,065 as of June 30, 2006.

Minnesota Medical Foundation

Investments in marketable equity and debt securities are reported at fair value based on quoted market prices. Investments in collective trust funds are carried at estimated fair value based on information provided by the managers of the collective trust funds. Investments as of June 30, 2006, consisted of the following:

	Cost	Fair value
Cash and cash equivalents	$ 17,174	$ 17,174
U.S. Treasury and government securities	30,506	29,706
Fixed-income corporate bonds	71,496	71,773
Equity securities, including $72,634 held in collective trusts managed by Barclays Global Investors	131,731	148,215
Total investments	$250,907	266,868
Less investments loaned to broker		(36,364)
Total		$230,504

Net investment return for the year ended June 30, 2006, consisted of the following:

Interest and dividend income	$ 4,188
Other investment income	2,769
Net realized and unrealized investment gains	15,144
	22,101
Less external investment manager and consultant fees	(940)
	$21,161

Securities Lending

University of Minnesota Foundation

UMF participates in securities lending transactions. Under terms of its securities lending agreement, UMF requires collateral of value at least equal to 102 percent of the then fair value of the loaned securities and accrued interest, if any. The risks to UMF of securities lending are that the borrower may not provide additional collateral when required or return the securities when due. The securities lending transactions at and for the year ended June 30, 2006, are summarized as follows:

Investments loaned to broker	$62,918
Investments collateral	64,053
Income from securities lending	139

Minnesota Medical Foundation

MMF participates in securities lending transactions. Under terms of its securities lending agreement, MMF requires collateral of value at least equal to 102 percent of the then fair value of the loaned securities and accrued interest, if any. The risks to MMF of securities lending are that the borrower may not provide additional collateral when required or return the securities when due.

Investments held as collateral consist of cash and cash equivalents, U.S. Treasury and government securities, and short-term corporate debt instruments. The securities lending transactions at and for the year ended June 30, 2006, are summarized as follows:

Investments loaned to broker	$36,364
Investments collateral	37,055
Income from securities lending	57

Years ended June 30, 2006 and 2005 (in thousands)

Net Assets

University of Minnesota Foundation

Net assets of UMF are classified into the following three categories:

1. Unrestricted net assets represent the portion of expendable funds that are available for support of the operations of UMF.
2. Temporarily restricted net assets consist of contributions that have been restricted by the donor for specific purposes or are time restricted.
3. Permanently restricted net assets consist of contributions that have been restricted by the donors who stipulate the resources be maintained permanently, but permit UMF to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Temporarily Restricted Net Assets

Temporarily restricted net assets were available as of June 30, 2006, for the following purposes:

Capital improvement/facilities	$ 63,354
Faculty support	17,447
Scholarships and fellowships	201,242
Lectureships, professorships, and chairs	210,960
College program support	246,950
Research	32,522
Trusts	12,329
Other	7,062
	$791,866

Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The permanently restricted net asset balances and purposes the income is expendable to support as of June 30, 2006, were as follows:

Capital improvement/facilities	$ 3,651
Faculty support	11,683
Scholarships and fellowships	172,907
Lectureships, professorships, and chairs	153,819
College program support	43,657
Research	7,853
Trusts	35,782
Other	1,651
	$431,003

Minnesota Medical Foundation

Net assets of MMF are classified based on the existence or absence of donor-imposed restrictions.

Temporarily Restricted Net Assets

This classification contains net assets that have been restricted by donors for specific purposes or are not available for use until a specific time. These consist principally of gifts and grants for designated purposes, investment return, and distributed earnings from permanent endowments calculated as a 4.75 percent payout of the average endowment balance over 20 trailing quarters. Such net assets are retained until expended as provided by the donor. Temporarily restricted net assets were available as of June 30, 2006, for the following purposes:

Medical School–Twin Cities	$ 64,174
Medical School program/student support	22,858
Academic Health Center	41,801
Biomedical Library	491
School of Public Health	2,532
Medical School–Duluth	1,451
Trusts, annuities, and other miscellaneous	9,051
	$142,358

Years ended June 30, 2006 and 2005 (in thousands)

Permanently Restricted Net Assets

This classification includes net assets that have been restricted by donors who stipulate the resources be maintained permanently by MMF. Earnings and growth in excess of the 4.75 percent payout, for donor-designated endowments, are reinvested to hedge against inflation and are maintained permanently by MMF. Permanently restricted net assets are restricted to investments in perpetuity. The permanently restricted net asset balances and purposes the income was expendable to support, as of June 30, 2006, were as follows:

Medical School–Twin Cities	$ 85,266
Medical School program/student support	35,033
Academic Health Center	19,421
Biomedical Library	1,806
School of Public Health	5,699
Medical School–Duluth	460
Trusts, annuities, and other miscellaneous	26,523
	$174,208

Guarantee Agreement and Financing Agreements

University Gateway Corporation

Guarantee Agreement

The University of Minnesota Foundation guarantees the Series 1997, 2002 and 2006 bonds. Gateway pays a credit enhancement fee equal to one quarter of 1 percent of the amount of the bonds outstanding on each June 1 and December 1.

Gateway recorded $224 and $228, respectively, of bond guarantee fee expense paid to the University of Minnesota Foundation for each of the years ended June 30, 2006 and 2005.

Financing Agreements

Bonds payable—The City of Minneapolis revenue bonds, Series 1997A and B, Series 2002 and 2006, are collateralized by substantially all the assets of Gateway, and repayment of the revenue bonds will be made through lease payments of the occupants.

To minimize interest cost, the University of Minnesota Foundation has guaranteed the revenue bonds (see Guarantee Agreement above). In addition, Gateway's Board of Directors' resolutions require mandatory capital contributions from the beneficiary organizations should the cash flow of Gateway be insufficient to meet the debt service obligations of Gateway.

Pursuant to a mortgage between Gateway and the trustee, the obligations to pay the principal and interest on the bonds have been collateralized by the mortgage on the property and equipment and an assignment of rents.

In July 2005, Gateway entered into an interest rate swap arrangement with a bank to fix the interest rate on $12,000 of variable-rate debt at an annual interest rate of 3.93 percent. The swap arrangement is indexed against the Bond Market Association Municipal Swap Index. The arrangement requires the difference between the fixed rate of interest and the index to be settled monthly. Included in interest expense for the year ended June 30, 2006, was approximately $112 paid to the bank. The change in fair value of the interest rate swap arrangement has been recorded in the statement of activities, resulting in a gain of approximately $611 for the year ended June 30, 2006.

Line of credit—Gateway has a $1 million, unsecured line of credit through November 2006. Advances on the line of credit bear interest at the bank's reference rate, less 1 percent (reference rate on June 30, 2006, was 7.25 percent), with interest payable monthly. The line is guaranteed by the University of Minnesota Foundation, a related entity. There were no borrowings under the line of credit during the years ended June 30, 2006 and 2005.

Years ended June 30, 2006 and 2005 (in thousands)

Financing agreements on June 30, 2006 and 2005, consisted of the following:

	2006	2005
City of Minneapolis revenue bonds, Series 1997A, with interest ranging from 4.80 percent to 5.25 percent, maturing serially from December 2001 through December 2024	$22,145	$22,780
City of Minneapolis revenue bonds, Series 1997B, with interest at a variable rate, principal due in December 2027	15,000	15,000
City of Minneapolis revenue bonds, Series 2002, with interest at a variable rate, principal due in June 2032	7,350	7,350
City of Minneapolis revenue bonds, Series 2006, with interest ranging from 4.00 to 4.50 percent, maturing serially from December 2006 through December 2031	22,700	
Other	336	39
Less discount on Series 2006 bond	(92)	
Less current portion	(347)	(648)
	$67,092	$44,521

Aggregate annual maturities are approximately as follows:

Fiscal years ending:	
2007	$ 347
2008	547
2009	555
2010	581
2011	601
Thereafter	64,900
	$67,531

The bonds are subject to earlier redemption upon the occurrence of certain events as specified in the bond documents.

It is the Corporation's intention to utilize the proceeds from the issuance of the Series 2006 bonds to pay in full the balance of the Series 1997A bonds during the year ending 2007.

University of Minnesota
Independent Auditors' Report on Additional Information

To the Board of Regents of the University of Minnesota

Our report on our audits of the consolidated financial statements of the University of Minnesota for the years ended June 30, 2006 and 2005 appears on page 26. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying statements of net assets by campus, and of revenues, expenses, and changes in net assets by campus are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Larson, Allen, Weishair & Co. LLP

Larson, Allen, Weishair & Co., LLP

Minneapolis, Minnesota
October 24, 2006

Statements of Net Assets by Campus
June 30, 2006 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$10,962	$ 23,067	$ 3,219	$1,069	$ 81,466	$ 119,783
Securities lending collateral	728	4,571	268		55,236	60,803
Short-term investments	40	240	110		49,290	49,680
Receivables, net	(5,785)	(1,482)	1,930	2	304,337	299,002
Inventories, net	122	1,282	327		17,061	18,792
Current portion of student loan receivables, net	137	2,337	291		10,731	13,496
Current portion of prepaid expenses and deferred charges					3,026	3,026
Other assets					198	198
Total current assets	6,204	30,015	6,145	1,071	521,345	564,780
Noncurrent assets						
Restricted cash and cash equivalents						–
Investments	4,064	66,897	4,641		1,314,802	1,390,404
Receivables, net					1,149	1,149
Student loan receivables, net	579	9,786	1,222		43,910	55,497
Prepaid expenses and deferred charges					3,936	3,936
Other assets					43	43
Capital assets, net	28,344	180,323	51,639	10	1,646,047	1,906,363
Total noncurrent assets	32,987	257,006	57,502	10	3,009,887	3,357,392
Total assets	39,191	287,021	63,647	1,081	3,531,232	3,922,172
Liabilities						
Current liabilities						
Accounts payable	288	3,749	1,227	72	54,796	60,132
Accrued liabilities and other	1,084	8,483	2,012	271	195,190	207,040
Securities lending collateral	728	4,571	268		55,236	60,803
Unearned income	72	2,817	187	20	106,634	109,730
Long-term debt—current portion	40	240	110		291,573	291,963
Total current liabilities	2,212	19,860	3,804	363	703,429	729,668
Noncurrent liabilities						
Accrued liabilities and other	796	11,921	1,592		72,843	87,152
Unearned income					2,990	2,990
Long-term debt	185	1,130	435		339,234	340,984
Total noncurrent liabilities	981	13,051	2,027	–	415,067	431,126
Total liabilities	3,193	32,911	5,831	363	1,118,496	1,160,794
Net Assets						
Unrestricted	(1,434)	(5,568)	(13,694)	678	390,154	370,136
Restricted						
Expendable	12,193	73,065	20,117	40	794,477	899,892
Nonexpendable	1,131	32,483	1,230		181,610	216,454
Invested in capital assets, net of related debt	24,108	154,130	50,163		1,046,495	1,274,896
Total net assets	$35,998	$254,110	$57,816	$ 718	$2,412,736	$2,761,378

Statements of Net Assets by Campus
June 30, 2005 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Assets						
Current assets						
Cash and cash equivalents	$12,301	$ 27,414	$ 4,305	$706	$ 85,922	$ 130,648
Securities lending collateral	466	5,378	417		64,618	70,879
Short-term investments	35	230	105		35,279	35,649
Receivables, net	(4,588)	260	905	2	274,990	271,569
Inventories, net	75	1,332	333		16,842	18,582
Current portion of student loan receivables, net	151	2,139	333		9,695	12,318
Current portion of prepaid expenses and deferred charges	16	7			3,714	3,737
Other assets					200	200
Total current assets	8,456	36,760	6,398	708	491,260	543,582
Noncurrent assets						
Restricted cash and cash equivalents					1,046	1,046
Investments	3,744	56,498	4,445		1,229,478	1,294,165
Receivables, net					1,337	1,337
Student loan receivables, net	625	9,976	1,304		45,706	57,611
Prepaid expenses and deferred charges					6,030	6,030
Other assets					142	142
Capital assets, net	25,953	168,893	46,413	6	1,670,056	1,911,321
Total noncurrent assets	30,322	235,367	52,162	6	2,953,795	3,271,652
Total assets	38,778	272,127	58,560	714	3,445,055	3,815,234
Liabilities						
Current liabilities						
Accounts payable	1,553	4,017	867	11	60,326	66,774
Accrued liabilities and other	1,126	7,374	1,631	312	181,801	192,244
Securities lending collateral	466	5,378	417		64,618	70,879
Unearned income	64	2,131	179	1	91,018	93,393
Long-term debt—current portion	35	230	105		399,649	400,019
Total current liabilities	3,244	19,130	3,199	324	797,412	823,309
Noncurrent liabilities						
Accrued liabilities and other	778	11,902	1,646		80,369	94,695
Unearned income					4,194	4,194
Long-term debt	225	1,370	545		264,792	266,932
Total noncurrent liabilities	1,003	13,272	2,191	–	349,355	365,821
Total liabilities	4,247	32,402	5,390	324	1,146,767	1,189,130
Net Assets						
Unrestricted	(1,696)	6,086	(9,434)	331	369,100	364,387
Restricted						
Expendable	10,294	58,962	16,063	59	721,879	807,257
Nonexpendable	1,130	28,613	1,239		175,665	206,647
Invested in capital assets, net of related debt	24,803	146,064	45,302		1,031,644	1,247,813
Total net assets	$34,531	$239,725	$53,170	$390	$2,298,288	$2,626,104

Statements of Revenues, Expenses, and Changes in Net Assets by Campus
Year ended June 30, 2006 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 4,588	$ 68,965	$ 9,735	$ 660	$ 412,757	$ 496,705
Federal appropriations					15,907	15,907
Federal grants and contracts	728	7,119	493		365,884	374,224
State and other government grants	49	1,602	11	52	51,518	53,232
Nongovernmental grants and contracts	61	2,211	138		171,303	173,713
Student loan interest income	20	184	49		1,278	1,531
Sales and services of educational activities	445	2,441	182	15	138,154	141,237
Auxiliary enterprises, net	2,978	32,298	3,721		229,045	268,042
Other operating revenues	3	74	20		5,771	5,868
Total operating revenues	8,872	114,894	14,349	727	1,391,617	1,530,459
Expenses						
Operating expenses						
Educational and general						
Instruction	5,518	49,400	12,105	930	553,402	621,355
Research	508	14,504	289	52	463,407	478,760
Public service	451	3,381	567		177,702	182,101
Academic support	2,127	13,801	4,548	1,434	272,528	294,438
Student services	1,852	7,292	3,565	9	67,248	79,966
Institutional support	1,631	9,315	1,934		114,220	127,100
Operation and maintenance of plant	2,524	19,986	5,060		164,351	191,921
Scholarships and fellowships	790	7,536	1,373		61,272	70,971
Depreciation	1,915	10,149	2,240		121,816	136,120
Auxiliary enterprises	3,747	30,797	4,752		146,322	185,618
Other operating expenses	1	(114)	(87)		(77)	(277)
Total operating expenses	21,064	166,047	36,346	2,425	2,142,191	2,368,073
Operating Loss	(12,192)	(51,153)	(21,997)	(1,698)	(750,574)	(837,614)
Nonoperating Revenues (Expenses)						
State appropriations	9,228	37,639	14,900		554,678	616,445
Grants	1,939	11,696	3,592		97,098	114,325
Gifts	598	3,923	498	18	92,184	97,221
Investment income	101	850	91		36,599	37,641
Net increase in fair value of investments	326	6,348	360		76,152	83,186
Interest on capital asset-related debt	1	12	8		(28,127)	(28,106)
Other nonoperating revenues (expenses), net	89	436	(23)		(4,488)	(3,986)
Net nonoperating revenues	12,282	60,904	19,426	18	824,096	916,726
Income (Loss) Before Other Revenues	90	9,751	(2,571)	(1,680)	73,522	79,112

Statements of Revenues, Expenses, and Changes in Net Assets by Campus
Year ended June 30, 2006 (in thousands) (concluded)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Capital appropriations	$ 708	$ 8,945	$ 7,428		$ 18,876	$ 35,957
Capital grants and gifts	36	243	1,000		11,167	12,446
Additions to permanent endowments		5	4		7,750	7,759
Indirect cost recovery	(4)	1	(9)		12	–
University assessment	(1,270)	(11,190)	(2,205)		14,665	–
Net mandatory transfers in (out)	(14)	(49)	(73)		136	–
Net nonmandatory transfers in (out)	1,921	6,679	1,072	$2,008	(11,680)	–
Total other revenues	1,377	4,634	7,217	2,008	40,926	56,162
Increase in Net Assets	1,467	14,385	4,646	328	114,448	135,274
Net assets at beginning of year	34,531	239,725	53,170	390	2,298,288	2,626,104
Net assets at end of year	$35,998	$254,110	$57,816	$ 718	$2,412,736	$2,761,378

Statements of Revenues, Expenses, and Changes in Net Assets by Campus
Year ended June 30, 2005 (in thousands)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Revenues						
Operating revenues						
Student tuition and fees, net	$ 4,657	$ 63,759	$ 9,684	$ 530	$ 384,787	$ 463,417
Federal appropriations					14,294	14,294
Federal grants and contracts	1,010	7,026	193		355,106	363,335
State and other government grants	63	1,480	21	8	46,407	47,979
Nongovernmental grants and contracts	427	1,752	194		178,880	181,253
Student loan interest income	18	181	63		1,296	1,558
Sales and services of educational activities	509	2,240	236	17	129,399	132,401
Auxiliary enterprises, net	3,543	30,252	3,829		207,265	244,889
Other operating revenues	3	75	20		3,952	4,050
Total operating revenues	10,230	106,765	14,240	555	1,321,386	1,453,176
Expenses						
Operating expenses						
Educational and general						
Instruction	5,521	44,947	10,950	967	518,912	581,297
Research	710	13,868	245	8	450,062	464,893
Public service	517	3,608	654		169,051	173,830
Academic support	1,978	12,518	3,960	1,397	245,678	265,531
Student services	1,837	7,338	3,231	4	61,615	74,025
Institutional support	1,478	8,820	1,939		96,665	108,902
Operation and maintenance of plant	2,906	16,348	3,985		141,384	164,623
Scholarships and fellowships	776	7,877	1,575		59,629	69,857
Depreciation	1,762	8,884	2,238		114,207	127,091
Auxiliary enterprises	4,094	29,549	4,360		132,540	170,543
Other operating expenses	(11)	(30)	(24)		711	646
Total operating expenses	21,568	153,727	33,113	2,376	1,990,454	2,201,238
Operating Loss	(11,338)	(46,962)	(18,873)	(1,821)	(669,068)	(748,062)
Nonoperating Revenues (Expenses)						
State appropriations	8,893	38,154	13,957		512,388	573,392
Grants	1,995	12,416	3,986		93,386	111,783
Gifts	429	2,796	661	25	90,241	94,152
Investment income	94	965	94		31,682	32,835
Net increase in fair value of investments	412	7,612	483		107,505	116,012
Interest on capital asset-related debt	(2)	(2)	2		(27,468)	(27,470)
Other nonoperating revenues (expenses), net	417	851	257		(1,361)	164
Net nonoperating revenues	12,238	62,792	19,440	25	806,373	900,868
Income (Loss) Before Other Revenues	900	15,830	567	(1,796)	137,305	152,806

Statements of Revenues, Expenses, and Changes in Net Assets by Campus
Year ended June 30, 2005 (in thousands) (concluded)

	Crookston	Duluth	Morris	Rochester	Twin Cities	Total
Capital appropriations	$ (467)	$ 879	$ (85)		$ 50,609	$ 50,936
Capital grants and gifts	(2)	164			14,557	14,719
Additions to permanent endowments		3	2		4,929	4,934
Indirect cost recovery	(6)		(5)		11	–
University assessment	(1,364)	(10,762)	(2,282)		14,408	–
Net mandatory transfers in (out)	(14)	(51)	(76)		141	–
Net nonmandatory transfers in (out)	6,054	6,866	2,618	$1,853	(17,391)	–
Total other revenues (loss)	4,201	(2,901)	172	1,853	67,264	70,589
Increase in Net Assets	5,101	12,929	739	57	204,569	223,395
Net assets at beginning of year	29,430	226,796	52,431	333	2,093,719	2,402,709
Net assets at end of year	$34,531	$239,725	$53,170	$ 390	$2,298,288	$2,626,104

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The Office of the Controller is responsible for the content of this report.

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The University's mission, carried out on multiple campuses and throughout the state, is threefold: research and discovery, teaching and learning, and outreach and public service.

1,800—12/06